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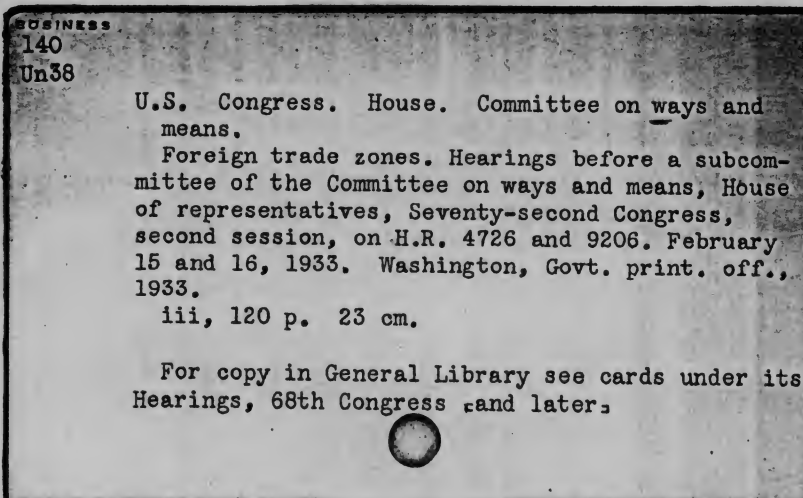
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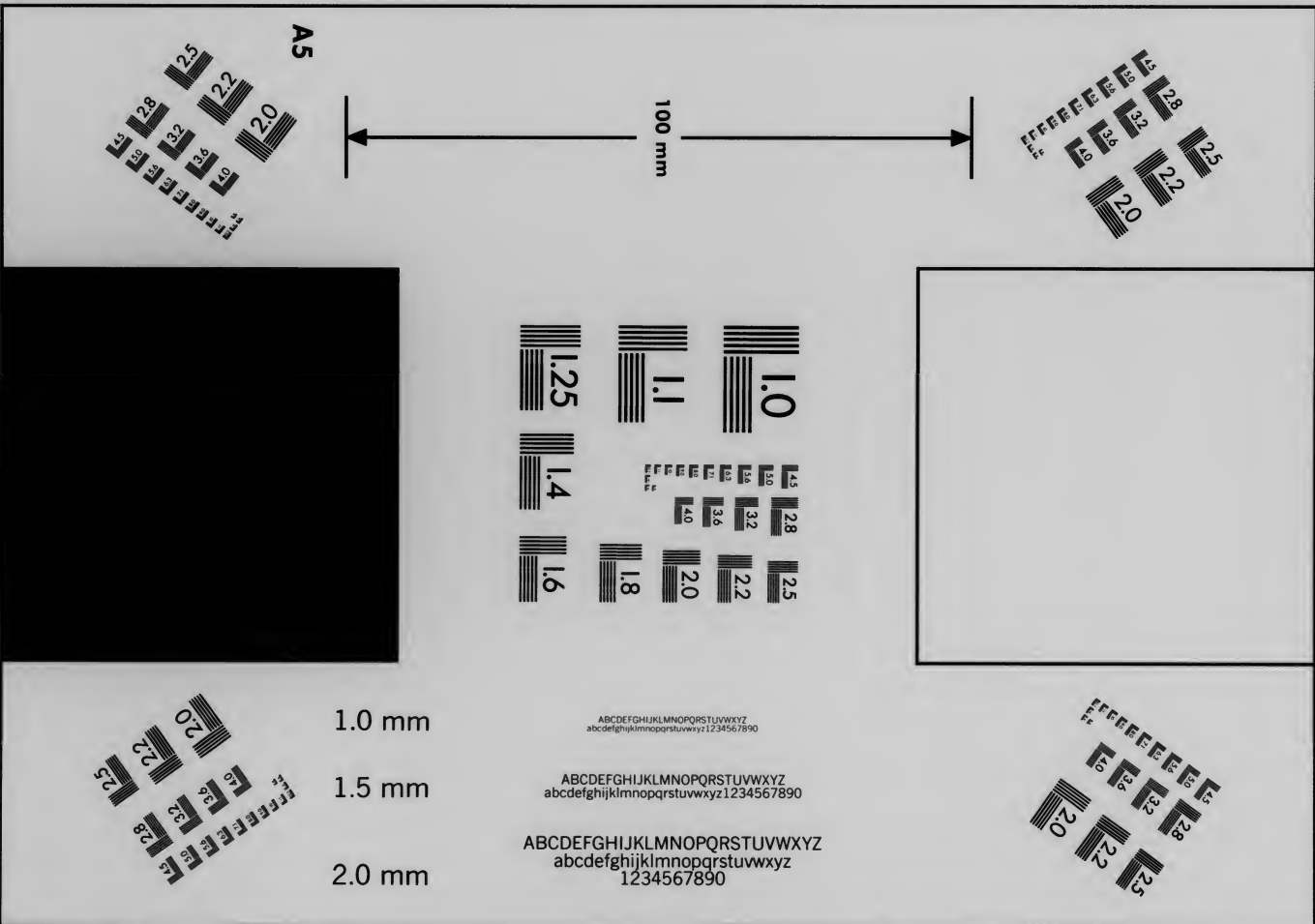
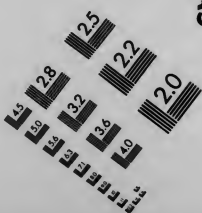
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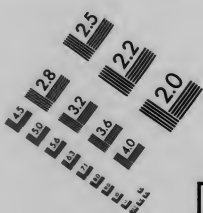
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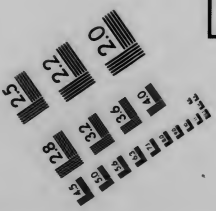
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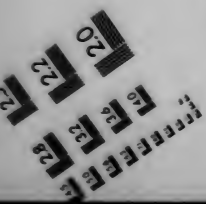
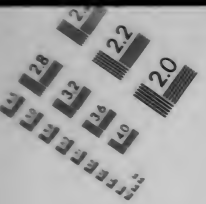


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Foreign Trade Zones.

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# FOREIGN TRADE ZONES

## HEARINGS

BEFORE A

### SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

SEVENTY-SECOND CONGRESS

SECOND SESSION

ON

### H. R. 4726 and 9206

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## FOREIGN TRADE ZONES

WEDNESDAY, FEBRUARY 15, 1933

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,  
Washington, D. C.

The subcommittee met at 10 o'clock a. m., Hon. Thomas H. Cullen (chairman) presiding.

Mr. CULLEN. The subcommittee will be in order. Gentlemen, the subcommittee has met this morning to consider the subject of the establishment of foreign-trade zones in ports of entry into the United States, and has before it two bills, one, H. R. 9206, introduced by Mr. Celler of New York.

We have a bill of similar character introduced by Mr. Welch, of California, H. R. 4726, to provide for the establishment of foreign-trade zones in ports of the United States.

Was there not a hearing on a similar bill last year, Mr. Welch?

Mr. WELCH. No. The matter was presented before the Ways and Means Committee in 1929 and during the hearings on the 1930 tariff bill.

Mr. CULLEN. At any rate, your bill is similar in its general purposes to the bill introduced by Mr. Celler.

Mr. WELCH. That is correct.

Mr. CULLEN. A comparatively short list of witnesses is before us to be heard on this subject. We will open the hearings by hearing first Mr. Celler on H. R. 9206, a copy of which will be made a part of the record.

H. R. 9206 is as follows:

[H. R. 9206, seventy-second Congress, first session]

A BILL To provide for the establishment, operation, and maintenance of foreign-trade zones in ports of entry of the United States, to expedite and encourage foreign commerce, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That when used in this Act—*

The term "Secretary" means the Secretary of Commerce;

The term "public corporation" means a State, a legal subdivision thereof, or a municipality, or a lawfully authorized public agency of a State or a municipality;

The term "applicant" means a public corporation applying for the right to establish, operate, and maintain a foreign-trade zone;

The term "grantee" means a public corporation to which the privilege of establishing, operating, and maintaining a foreign-trade zone has been granted;

The term "zone" means a "foreign-trade zone" as provided in this act.

SEC. 2. The Secretary is hereby authorized, subject to the conditions and restrictions of this act and of the rules and regulations made thereunder, upon application as hereinafter provided, to grant to public corporations the privilege of establishing, operating, and maintaining foreign-trade zones in or adjacent to ports of entry under the jurisdiction of the United States. Not more than one zone shall be authorized in or adjacent to any port of entry, except that when a port of entry is located within the confines of more than one State a zone may be authorized in each State in the territory comprised in such port of entry.



SEC. 3. Foreign and domestic merchandise of every description, except such as is prohibited by law, may, without being subject to the customs laws of the United States, except as otherwise provided in this act, be brought into a zone and there stored, exhibited, broken up, repacked, assembled, distributed, sorted, refined, graded, cleaned, mixed with foreign or domestic merchandise or otherwise manipulated, but not manufactured, and be exported, and foreign merchandise may be sent into customs territory of the United States therefrom, in the original package or otherwise; but when foreign merchandise is so sent from a zone into customs territory of the United States it shall be subject to the laws and regulations of the United States affecting imported merchandise: *Provided*, That when the privilege shall be requested the collector of customs shall supervise the unloading of foreign merchandise in the zone; cause such merchandise or any portion thereof to be appraised and the duties liquidated thereon. Thereafter it may be stored or manipulated under the supervision and regulations prescribed by the Secretary of the Treasury, and within two years after such unloading such merchandise, whether mixed with domestic merchandise or not, may be sent into customs territory upon the payment of such liquidated duties thereon; and if not so sent into customs territory within such period of two years such merchandise shall be disposed of under rules and regulations prescribed by the Secretary of the Treasury and out of the proceeds the duties shall be paid and the remainder, if any, to be delivered to the owners of the property: *Provided further*, That subject to such regulations respecting identity and the safeguarding of the revenue as the Secretary of the Treasury may deem necessary, articles the growth, product, or manufacture of the United States, and articles previously imported on which duty has been paid, or which have been admitted free of duty, may be taken into a zone from the customs territory of the United States, and may be brought back thereto free of duty, whether or not they have been combined with or made part, while in such zone, of other articles: *Provided*, That if in the opinion of the Secretary of the Treasury their identity has not been lost such articles not entitled to free entry by reason of noncompliance with the requirements made hereunder by the Secretary of the Treasury shall be treated when they reenter the customs territory of the United States as foreign merchandise under the provisions of the tariff laws in force at that time.

SEC. 4. The Secretary of the Treasury shall assign to the zone the necessary customs officers and guards to protect the revenue and to provide for the admission of foreign merchandise into customs territory.

SEC. 5. Vessels entering or leaving a zone shall be subject to the operation of all the laws of the United States, except as otherwise provided in this act, and vessels leaving a zone and arriving in customs territory of the United States shall be subject to such regulations to protect the revenue as may be prescribed by the Secretary of the Treasury.

SEC. 6. Each application shall state in detail—

(1) The location and qualifications of the area in which it is proposed to establish a zone, showing (a) the land and water or land or water area or land area alone if the application is for its establishment in or adjacent to an interior port; (b) the means of segregation from customs territory; (c) the fitness of the area for a zone; and (d) the possibilities of expansion of the zone area;

(2) The facilities and appurtenances which it is proposed to provide and the preliminary plans and estimate of the cost thereof, and the existing facilities and appurtenances which it is proposed to utilize;

(3) The time within which the applicant proposes to commence and complete the construction of the zone and facilities and appurtenances;

(4) The methods proposed to finance the undertaking;

(5) Such other information as the Secretary may require.

The Secretary may upon his own initiative or upon request permit the amendment of the application. Any expansion of the area of an established zone shall be made and approved in the same manner as an original application.

SEC. 7. If the Secretary finds that the proposed plans and location are suitable for the accomplishment of the purpose of a foreign trade zone under this act, and that the facilities and appurtenances which it is proposed to provide are sufficient, he shall make the grant. If the Secretary refuses the grant, the applicant may appeal to a board consisting of the Secretary of Commerce, the Secretary of the Treasury, and the Secretary of War, whose decision shall be rendered within three months from the filing of such appeal and be final as to the grant of the application.

SEC. 8. The Secretary shall prescribe such rules and regulations not inconsistent with the provisions of this act or the rules and regulations of the Secretary of the Treasury made hereunder and as may be necessary to carry out this act.

SEC. 9. The Secretary shall cooperate with the State, subdivision, and municipality in which the zone is located in the exercise of their police, sanitary, and other powers in and in connection with the free zone. He shall also cooperate with the United States Customs Service, the Post Office Department, the Public Health Service, the Bureau of Immigration, and such other Federal agencies as have jurisdiction in ports of entry described in section 2.

SEC. 10. For the purpose of facilitating the investigations of the Secretary and his work in the granting of the privilege, in the establishment, operation, and maintenance of a zone, the President may direct the executive departments and other establishments of the Government to cooperate with the Secretary, and for such purpose each of the several departments and establishments is authorized, upon direction of the President, to furnish to the Secretary such records, papers, and information in their possession as may be required by him, and temporarily to detail to the service of the Secretary such officers, experts, or engineers as may be necessary.

SEC. 11. If the title to or right of user of any of the property to be included in a zone is in the United States, an agreement to use such property for zone purposes may be entered into between the grantee and the department or officer of the United States having control of the same, under such conditions, approved by the Secretary and such department or officer, as may be agreed upon.

SEC. 12. Each grantee shall provide and maintain in connection with the zone—

(a) Adequate slips, docks, wharves, warehouses, loading and unloading and mooring facilities where the zone is adjacent to water; or, in the case of an inland zone, adequate loading, unloading, and warehouse facilities;

(b) Adequate transportation connections with the surrounding territory and with all parts of the United States, so arranged as to permit of proper guarding and inspection for the protection of the revenue;

(c) Adequate facilities for coal or other fuel and for light and power;

(d) Adequate water and sewer mains;

(e) Adequate quarters and facilities for the officers and employees of the United States, State, and municipality whose duties may require their presence within the zone;

(f) Adequate inclosures to segregate the zone from customs territory for protection of the revenue, together with suitable provisions for ingress and egress of persons, conveyances, vessels, and merchandise;

(g) Such other facilities as may be required by the Secretary of Commerce, the Secretary of War, and the Secretary of the Treasury, acting jointly.

SEC. 13. The grantee may, with the approval of the Secretary of Commerce and the Secretary of the Treasury, and under reasonable and uniform regulations for like conditions and circumstances to be prescribed by them, permit private persons, firms, corporations, or associations to erect such buildings and other structures within the zone as will meet their particular requirements: *Provided*, That such permission shall not constitute a vested right as against the United States, nor interfere with the regulation of the grantee or the permittee by the United States, nor interfere with or complicate the revocation of the grant by the United States: *And provided further*, That in the event of the United States or the grantee desiring to acquire the property of the permittee no good will shall be considered as accruing from the privilege granted to the zone: *And provided further*, That such permits shall not be granted on terms that conflict with the public use of the zone as set forth in this act.

SEC. 14. Each zone shall be operated as a public utility, and all rates and charges for all services or privileges within the zone shall be fair and reasonable, and the grantee shall afford to all who may apply for the use of the zone and its facilities and appurtenances uniform treatment under like conditions, subject to such treaties or commercial conventions as are now in force or may hereafter be made from time to time by the United States with foreign governments and the cost of maintaining the additional customs service required under this Act shall be paid by the operator of the zone.

SEC. 15. No person shall be allowed to reside within the zone except Federal, State, or municipal officers or agents whose resident presence is deemed necessary by the Secretary.

The Secretary shall prescribe rules and regulations regarding employees and other persons entering and leaving the zone. All rules and regulations concerning the protection of the revenue shall be approved by the Secretary of the Treasury.

The Secretary may at any time order the exclusion from the zone of any goods or process of treatment that in his judgment is detrimental to the public interest, health, or safety.

No retail trade shall be conducted within the zone except under permits issued by the grantee and approved by the Secretary. Such permittees shall sell no goods except such as are brought into the zone from customs territory.

SEC. 16. The form and manner of keeping the accounts of each zone shall be prescribed by the Secretary.

Each grantee shall make to the Secretary annually, and at such other times as he may prescribe, reports containing a full statement of all the operations, receipts, and expenditures, and such other information as the Secretary may require.

The Secretary shall make a report to Congress on the first day of each regular session containing a summary of the operation and fiscal condition of each zone and transmit therewith copies of the annual report of each grantee.

SEC. 17. The grant shall not be sold, conveyed, transferred, set over, or assigned.

SEC. 18. In the event of repeated violations of any of the provisions of this act by the grantee, the Secretary of Commerce, the Secretary of War, and the Secretary of the Treasury, or a majority of them, may revoke the grant after four months' notice to the grantee and affording it an opportunity to be heard. The testimony taken before the Secretaries shall be reduced to writing and filed in the records of the Department of Commerce together with the decision reached thereon.

In the conduct of any proceeding under this section for the revocation of a grant the Secretaries may compel the attendance of witnesses and the giving of testimony and the production of documentary evidence, and for such purpose may invoke the aid of the district courts of the United States.

An order under the provisions of this section revoking the grant issued by the Secretaries shall be final and conclusive, unless within ninety days after its service the grantee appeals to the circuit court of appeals for the circuit in which the zone is located by filing with the clerk of said court a written petition praying that the order of the Secretary be set aside. The clerk of the court in which such a petition is filed shall immediately cause a copy thereof to be delivered to the Secretaries and they shall forthwith prepare, certify, and file in the court a full and accurate transcript of the record in the proceedings held before them under this section, the charges, the evidence, and the order revoking the grant. The testimony and evidence taken or submitted before the Secretaries, duly certified and filed as a part of the record, shall be considered by the court as the evidence in the case.

On such appeal the court shall review the record of proceedings before the Secretaries, and, if a decision of said Secretaries shall be supported by evidence, shall only make decision on errors of law.

SEC. 19. In case of a violation of this act, or any regulation of the Secretary under this act, by the grantee, any officer, agent, or employee thereof responsible for or permitting any such violation shall be subject to a fine of not more than \$1,000. Each day during which a violation continues shall constitute a separate offense.

SEC. 20. If any provision of this Act or the application of such provision to certain circumstances be held invalid, the remainder of the Act and the application of such provisions to circumstances other than those as to which it is held invalid shall not be affected thereby.

SEC. 21. The right to alter, amend, or repeal this Act is hereby reserved.

#### STATEMENT BY HON. EMANUEL CELLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. CELLER. Mr. Chairman and gentlemen:

The Federal Tariff Commission some time ago made a very exhaustive study of the subject of "foreign-trade zones" or "free ports," and it presented to the Senate the results of a rather exhaustive investigation. Its conclusion is as follows:

After exhaustive study of foreign institutions and careful investigation of American conditions and mercantile opinion, the Tariff Commission recommends the policy of permitting the establishment of free zones in American ports.

Mr. Chairman, a very lengthy and formidable number of important chambers of commerce, boards of trade, and mercantile establishments scattered throughout the length and breadth of the United States, have expressed opinions to the effect that we should set up free ports or foreign-trade zones in our various ports of entry.

Mr. CELLER. In order to get a clear idea of a free port, I would like to have permission briefly to read into the record at this time the definition of a free port or a foreign trade zone as given by the Tariff Commission in its report, to which I have adverted.

The word "free" in connection with "port" or "zone" is apt to be misleading. It is proper to note, therefore, that the term has no relation either to port charges or to any policy of free trade or protection in this case. Conventional nomenclature is in this case misleading. "A neutral zone" would be more properly descriptive. A free port or free zone is a place limited in extent but differs from adjacent territory in being exempt from customs laws as affecting goods destined for reexport. It means simply that, as regards duties, there is freedom unless and until imported goods enter the domestic market. A free zone may be defined as an isolated, inclosed, and policed area in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unlading, for supplying fuel and ship stores, for storing goods, and for reshipping them by land and water—an area within which goods may be landed, stored, mixed, blended, repacked, manufactured, and reshipped without payment of duties and without the intervention of customs officials. It is subject a little within adjacent regions to all the laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and indeed everything except the customs. The purpose of the free zone is to encourage and expedite that part of a nation's foreign trade which its government wishes to free from the restrictions instituted by custom duties. In other words, it aims to foster the dealing in foreign goods that are imported, not for domestic consumption but for reexport to foreign markets and for the conditioning or for combining with domestic products previous to export.

Now, our Government—after hearing that definition of a free port or a foreign trade zone—it may be stated, during all the course of its history, has always adopted a policy that has not been unfavorable to the very kind of commerce that a free port is designed to promote and for that reason the Government has adopted a policy firstly, providing for bonded warehouses where goods intended for reexport may be entered and held free of duty.

That, you may recall in the definition which I have given you, is implied in a free port.

Mr. CULLEN. Within the free zone?

Mr. CELLER. Within the free zone. Secondly, they have adopted legislation from time to time for bonded manufacturing warehouses where, without payment of duty, imported goods may be handled or manufactured solely for export, either with or without the admixture of domestic materials or goods.

Thirdly, and along that same line, and with a desire to do the very thing that a free port would expedite—the Government has established the drawback, which is a repayment of 99 per cent of the duties paid it on imported goods when they are reexported.

You might ask, why, if the Government has set up these various factors for the purpose of doing the very thing that a free port tends to expedite or encourage, should we have a free port? The answer is simple. The many difficulties that have arisen with reference to manufacturers and importers and exporters availing themselves of these three different provisions of the customs laws that have grown up in this country, have created the greatest amount of dissatisfaction.



tion with those very factors and instead of tending to encourage commerce, they have truly discouraged commerce.

We find, for example, that the procedure with reference to the drawback is so difficult and is so hedged about with restrictions set up by our Government that few, if any, merchants avail themselves of the privilege. It is a very costly privilege, involving the hiring of attorneys and others skilled in that work; so much so that most of the claims for drawbacks instead of being vigorously pursued, are abandoned.

I shall not take the time of the committee now, but I shall put in the record some figures to indicate over a period of a few years the amount of money paid out by the Government in the form of drawbacks. You will notice from those figures a very sharp declining scale of payments.

Just recently, and to illustrate the point I have made, may I direct your attention to these figures from 1926 to 1931:

Amount of duty paid on drawbacks during the fiscal years—	
1926.....	\$21,462,398
1927.....	12,506,214
1928.....	14,327,953
1929.....	13,666,523
1930.....	14,444,626
1931 (to November 30).....	4,587,644

Mr. CULLEN. Mr. Celler, it is your contention that if the free zones are established throughout the United States, and not in any particular section, that would obviate the necessity of these drawbacks?

Mr. CELLER. That is one of the contentions we make; that is made by those who advocate the free-port idea.

Mr. McCORMACK. That is only a minor matter, Mr. Celler, is it not?

Mr. CELLER. It is an argument that has been advanced, and that I am very anxious to advance in this case, in advocacy of the free-port idea. Advancing large sums of money for tariffs and then waiting months before a reluctant Government gives the money back—and without interest—is not a minor matter.

Mr. WATSON. Your bill permits foreign articles imported into the United States as to be manipulated, but not manufactured, and be exported. The bill which was before the House previously, on this subject, gave the power to manufacture. Why do you make the distinction there between manipulate and manufacture?

Mr. CELLER. That is a matter that would be subject to amendment, if necessary. I introduced a bill more or less identical with a bill offered by Senator Jones in the Senate and which has already passed, I believe, at some previous session of the Senate, in order to expedite the matter and to get as speedy action as possible. I introduced the bill for that purpose, more or less fashioned after the bill introduced by Senator Jones. I am primarily interested in the general principle of a "free port"; the form the bill takes is not so important. I would prefer to exclude manufacturing in the beginning. Let us try the idea of a free port first, under the conditions laid down in my bill, and then later we can if practical and reasonable expand the facilities and functions of the free port. Manufacturing at this juncture might give rise to much controversy. Let us leave it out—temporarily at least.

Mr. WATSON. With reference to your language, "manipulated, but not manufactured," how do you make the distinction? Manipulation comes pretty near to being manufacture. You allow things to be mixed or otherwise manipulated. Where do you make the distinction there?

Mr. CELLER. Manufacturing is not exactly manipulation. Manipulation might merely be breaking a product into smaller units without any manufacture. As to similarity between the two I agree with you, Mr. Watson. But the first obstacle for us to overcome is any adverse opinion of the gentlemen on this committee—to try and get them to see eye for eye with us on the principle of free port or a foreign trade zone in general. Let us not be concerned with details. Then, if they do that, it will be a very easy matter to determine what shall transpire in the "free port" or "foreign trade zone."

I should like to address myself particularly this morning to the general idea. There are others here who will tell you of the situation more in detail; as to whether or not manufacturing should or should not be permitted in the foreign trade zone.

Mr. WATSON. For instance, about 125,000,000 pounds of sugar, I believe, is allowed to be manufactured under this drawback system. Would your proposition of a free zone be advantageous or disadvantageous to the sugar importer?

Mr. CELLER. I think it would be a decided advantage to the sugar importer. He would save the drawback in many instances and avoid all the cumbersome procedure involved in placing his goods in bond. Certainly he would avoid all manner of delays.

Mr. WATSON. That is, under your free zone policy?

Mr. CELLER. Yes, sir. While I have not consulted with any sugar importers specifically, I presume it would be to their advantage. I can not conceive how it would be to their disadvantage; but whether they are in favor of this bill or not, I can not indicate at this time.

Mr. WATSON. There is one more question. Let us assume that you import a commodity which is also raised in this country. Of course, there would be no duty on the foreign commodity. Would not that create a differential in favor of the foreign product?

Mr. CELLER. The duty would not apply if you reexport that product. If it is used for consumption in this country, it would apply.

Mr. WATSON. But let us suppose that you can buy the foreign product a great deal cheaper, delivered into your free zone. Would it not be an advantage to buy the foreign product and then have it mixed or otherwise manipulated into its final state and then exported? Would not that create a differential in favor of the foreign product?

Mr. CELLER. I could see a differential there in favor of the foreign product. But if that foreign product is going to be used for consumption in this country, that would not result.

Mr. WATSON. It is to the advantage of the corporation that manufactures the foreign product to do that, because it can buy the foreign product a little cheaper. Of course, if the product remains in this country, the duty has to be paid on it.

Mr. CELLER. I believe that is correct.

Mr. WATSON. But if it is the purpose to manufacture it or manipulate it in some form and then reexport it, no duty is paid on it.

Mr. CELLER. That might be the result. Let me say this, Mr. Congressman. There is no perfect answer to this proposition. There may be some slight disadvantages in the matter of setting up a free port, but there are so many decided advantages that, in my opinion, they would outweigh any disadvantages that would eventuate from its establishment.

Mr. WATSON. I believe they have a free port at Hamburg, do they not?

Mr. CELLER. Yes.

Mr. WATSON. That has been established for a number of years and is a very extensive operation. But that is located in a sort of free trade country.

Mr. CELLER. Hamburg draws from a great many countries; there are many smaller countries right around Hamburg, in the vicinity of Hamburg and Bremen; but it has been indicated clearly in a great many writings by men who are more familiar with the subject than I am, experts on the subject, that Hamburg and Bremen have been built up primarily because of their "free port" facilities.

Mr. WATSON. Are these private corporations?

Mr. CELLER. No. In my bill only public or quasi public corporations are considered. These are not to be private corporations.

Mr. WATSON. Your policy is not to set up a private corporation?

Mr. CELLER. No; public corporations.

Mr. WATSON. Public corporations?

Mr. CELLER. Yes, sir.

Mr. WATSON. What is your definition of a public corporation?

Mr. CELLER. If you will turn to page 1 of the bill, there is a definition of a "public corporation."

The term "public corporation" means a State, a legal subdivision thereof, or a municipality, or a lawfully authorized public agency of a State or a municipality."

Incidentally, Mr. Congressman, the Delegate from Hawaii, who is present, has suggested that there be an amendment offered to include Territories; that is, either Territories or public corporations set up by the Territories.

Mr. WATSON. But there must be an appropriation made by the Federal Government, State, or municipality in order to establish this free port?

Mr. CELLER. I take it that the monies would come primarily from the State or the territories or the subdivisions, as outlined in this definition of public corporation.

They would have to be set up under the rules and regulations of the Secretary of Commerce. There would be required money for the establishment of these various facilities, docks, wharfs and piers.

Mr. WATSON. It would mean an investment of several millions to establish such a free port.

Mr. CELLER. There are certain public corporations now established I believe, such as the Port of New York Authority, which would work in conjunction with the State of New York and which might be in a position immediately to establish a foreign trade zone.

Mr. WATSON. Without any expense to the State?

Mr. CELLER. I could not say that; I do not know that. There is a representative from the port authority here and probably he could

answer that question. It might be a good idea to have him answer the question now.

Mr. WATSON. We should be glad to have him answer it now.

Mr. HEDDEN. My name is Walter B. Hedden. My position is chief, Bureau of Commerce, the Port of New York Authority.

Perhaps I am anticipating a little, but frankly, as far as the Port of New York Authority is concerned, we would not make application to the Secretary of Commerce for permission to establish a free port, even if this bill were passed, without a very careful economic survey of the advisability of doing it, with a view to making it self-supporting. All I can say in that regard is this; that to-day, even if we found it to be economically self-supporting, we could not establish it because the necessary legislation to authorize it is not now available.

The matter of costs would have to be gone into. All I can say is this: Stockholm, for example, has a very modern free port, about 5,500,000 square feet in its area. I understand that that is patrolled by a maximum number of 20 guards. That would be a very reasonable cost to patrol a port. The investment in new piers, and docks, and so on, would have to be determined on the basis of whether it would be economical and self-supporting.

Mr. CELLER. Mr. Chairman, I will say, as a citizen of New York and one interested in New York affairs, in the light of a demand for a free port in New York on the part of the authorities of New York City, on the part of the New York State Chamber of Commerce, the New York Board of Trade, the United States Chamber of Commerce, the Brooklyn Chamber of Commerce, and a host of other boards and chambers of commerce throughout the length and breadth of New York State, that there certainly has developed a crystallization of public opinion in favor of free ports which even the Legislature of New York State could not very easily resist. I am sure that the necessary legislation would be easily and very quickly forthcoming in my State. I can not answer for other States, but I certainly can answer for New York. Even our own United States Shipping Board, under its chairman has often gone on record in advocating most earnestly the establishment of this very principle embodied in my bill and the bill of my colleague, Mr. Welch of California.

Mr. CULLEN. Mr. Celler, have you any communication from the dock commissioner of the city of New York in regard to this matter?

Mr. CELLER. I would be very glad to put such a letter in the record, but I understand we have a representative of the dock commissioner of New York present, and he can testify.

Mr. CULLEN. I would like to insert in the record at this time a communication that I have received from the State Port Authority of Virginia, on this matter.

(The letter referred to is as follows:)

THE STATE PORT AUTHORITY OF VIRGINIA,  
Norfolk, Va., February 11, 1933.

Subject: Foreign trade zones, establishment of, proposed.

Hon. THOS. CULLEN,  
Chairman Special Subcommittee, House Ways and Means Committee,  
Washington D. C.

DEAR SIR: Referring to the above subject, we are advised by Mr. Eugene Fly, clerk of your committee, that hearings will begin on House bills 4726 and 9206 Wednesday, February 15, at 10 o'clock a. m., and as a result, we are addressing

you first to assure you of our interest in the establishment of "Foreign trade zones" as being essential to the welfare of the foreign commerce of the United States and particularly so at this time when the protection of foreign trade is so necessary.

With specific reference to the bills above named, may we suggest that:

(A) We believe the term "public corporation" as used in H. R. 4726 should be so clarified as not to include a chartered corporation which might be formed for revenue making purposes only and without due regard to the specific interest of the public. We believe the right to establish foreign trade zones should be reserved to the State or the communities concerned.

(B) We note that in those bills permission would be granted to do almost anything "but not to manufacture." We believe the right to "manufacture" should be incorporated in these or any other bills approved for the purpose of establishment of foreign trade zones.

(C) It seems to this commission also that the limitation in H. R. 9206 (sec. 2) of but one zone in any one port "except that when a port of entry is located within the confines of more than one State, etc." restricts latitude of operation—and that the establishment of foreign trade zones, where and when desired, should be permitted—upon approval of the Secretary of Commerce and the Secretary of the Treasury. This would naturally eliminate much opposition, which might otherwise come from misinformed interior interests. The development of foreign trade would thereby be encouraged.

It seems to us that these features are essential, if and provided any foreign trade zone established is to fill the most needed functions in the direction of furthering the industry of our country.

May we respectfully request that these recommendations be incorporated in your committee's record and that they may have your most favorable consideration.

Yours very truly,

W. A. Cox,  
*Director of the Port.*

Mr. McCORMACK. I have a very general knowledge of this subject, not having refreshed my memory on it for some time. This thought enters my mind. Why do you limit these corporations to public corporations? Suppose a State is unable to provide such an establishment, and private capital wants to enter into this business and is willing to subject itself to the regulations of the Secretary of Commerce, which, of course, would be necessary, why limit it merely to a public corporation?

As you know, there is a school of thought that we should as much as possible keep the Government out of private business. I agree that a proposition of this kind should be regulated by the Federal Government. The question enters my mind, Why limit it to States or subdivisions thereof? Why not permit private capital to enter into such an establishment? Suppose a group of citizens in New York or in Boston or in Los Angeles, if those political subdivisions were unable to finance such a proposition, were willing to enter into it. Why not permit them to do that?

Mr. CELLER. The point is well taken, and I think the gentleman is eminently right. There is no reason why they should not be and I will be very happy to entertain such an amendment to my bill. If public-spirited citizens with capital and a willingness to take a limited return on their capital are willing to band together to undertake the risks of setting up a free port, we should not deny them the right.

Mr. McCORMACK. I have no pride in that suggestion. I asked the question so that you might pick the suggestion to pieces.

Mr. CELLER. I think your point is well taken. Let me revert to the difficulties of the drawback.

The drawback permits the importer, instead of placing his goods under bond, to pay the duty on their entry, and then to draw back from the Treasury on their reexportation 99 per cent of the amount paid. This provision can not, any more than the bonded warehouse provision can, relieve commerce from the delays and burdens incident to customs enforcement. Every step in the process must be taken subject to customs inspection. Oaths are required from importers, superintendents, and exporters. Even after reshipment the drawback is unavailing unless evidence is shown of the actual landing of the goods in the foreign country. Under the smoothest operation of the law, capital to the extent of the duties is tied up in the Treasury from the time the goods are imported until 30 days after they are reshipped. (See p. 9, Free Zones in Ports of the United States, U. S. Tariff Commission.)

The same thing holds good with reference to the bonded warehouses. Just to give you one or two of the hindrances, let me call your attention to this:

Even drayage between the dock and the warehouse must be done under bond. \* \* \* From the time the goods enter the port until they are reshipped, the goods are under constant customs control and supervision. \* \* \* Permits, for example, must always be obtained for the reception and delivery, and strict accounts must be kept of all warehouse transactions. Handling, sorting, and repacking of the goods are prohibited. Only where serious damage is threatened can the original package be opened, and even then it must be done by special permission under customs supervision.

Since the Government has always indicated a policy to encourage commerce and to encourage the importation of goods and their reexportation in order to give greater and wider use and scope to American labor, we now present a proposition which will carry out all those purposes without all the disadvantages that have been spoken of. For that reason I urge upon this committee very serious consideration of my bill.

The establishment of free zones in various cities of Europe has greatly influenced commerce passing through those cities. Although the Bremen free port was only established in 1884, for example, the importance of Bremen in foreign trade may be said to be due, in a very large degree, to its being a free port. Its importance as a commercial and transshipment center is in the main attributable to its free port privileges.

It is interesting to note that Bremen, as a free port, has greatly aided the development of the German merchant marine. The North German Lloyd, the Roland Line, the Hansa Line, the Neptune Line, the Bremen-Hamburg-Africa Line, and other well-known ship-owning firms have been able to do an enormous freight business, in a large degree as a result of the freedom of Bremen from all customs tariffs as a free port.

All that I have said with reference to Bremen can be said also with reference to Hamburg. The position of Hamburg as a leading port of northern Europe is inextricably bound up with her free port. Free ports have been established at Leghorn, Trieste, Copenhagen, Danzig, Stockholm, Cadiz, Gothenburg, Barcelona, Malmo, Saloniki, Sulina, and many other places. The wisdom of European governments in setting up these free zones should not be disregarded by us.



I desire to place in the record a letter received from the president of Columbia University, Mr. Nicholas Murray Butler, advocating the passage of the bill.

Mr. CULLEN. Without objections, that may be made a part of the record.

(The letter is as follows:)

The Hon. EMANUEL CELLER,  
House of Representatives, Washington, D. C.

FEBRUARY 13, 1933.

MY DEAR CONGRESSMAN: I thank you for your telegram of the 11th, and regret that I am unable to be in Washington on the 15th, to attend a meeting of the subcommittee of the Ways and Means Committee for the consideration of your bill H. R. 9206.

As you know, I am strongly of opinion that the establishment of a free port on Staten Island would be administratively simple, economically wise and sound, and would redound not only to the benefit of the port of New York but to our entire international and coastwise shipping trade.

Faithfully yours,

NICHOLAS MURRAY BUTLER.

Mr. CELLER. I should also like to put in the record, a statement which was submitted to me by Mr. Howard S. Cullman, Commissioner of the Port of New York Authority. It is not very long and I shall not take the time of the Committee now to read it. He has asked me to present it for the record.

Mr. CULLEN. Without objections, that may be done. Thank you, Mr. Celler.

(The statement referred to is as follows:)

#### FREE PORTS OR FOREIGN TRADE ZONES

(Radio address by Howard S. Cullman, Commissioner, the Port of New York authority over station WABC (Columbia Network), New York City, Friday, December 30, 1932)

Three recent events have directed public interest toward the possibility of establishing a free port or foreign trade zone in the port of New York. New York City's energetic Commissioner of Docks, John McKenzie, in his report of March 30, this year, urged that the problem of the city's unused Staten Island piers could be solved by creating a free port on Staten Island. In July news came from Washington that President Hoover had signed a bill sponsored by Senator Wagner permitting the importation, free of duty, of goods for exhibition or display at the Rockefeller Center in an area bounded by Fifth and Sixth Avenues and Forty-eighth and Fifty-first Streets, Manhattan, with a proviso that all such goods must pay duty if sold for domestic consumption. In November, President Nicholas Murray Butler of Columbia University, in his suggestions for reorganization of the city charter and the city government, urged that Staten Island be set aside as a free port.

What is a free port or a foreign trade zone, and how can it benefit the port of New York and the United States? The operation of foreign trade zones has been much misunderstood in this country. A free port is not a hole in the tariff wall or an entering wedge for the dumping of foreign products. It is a vestibule located on American soil but outside of the customs limits of the United States. Every pound of copper, ton of sugar, and barrel of oil landed in such a zone would be subject to the payment of duties or taxes to the United States the minute it came through the customs barriers for sale in this country.

A free port is a special vestibule or workshop outside the customs limits of the United States where goods can be transhipped from one American vessel to another on the through journey from Peru or Canada to the United Kingdom without the red tape and expense of minute customs regulations and inspection at every step of the transfer. As long as the goods do not come past the customs barrier stockade American steamship lines, exporters, storage warehousemen, blenders, can pursue unhampered their activities of storing, mixing, repacking, and reshipping goods received from one foreign country and destined to another foreign country.

There is nothing new or radical in the administration of a foreign trade zone. In Europe such zones have been in existence since 1876 when a free port was established at Genoa. The free port of Leghorn Harbor, Italy, as now in existence, was established in 1883. The free zone in Trieste was organized in 1886 and began to operate in 1891. Free ports were established in Copenhagen in 1894; Danzig in 1896; and in Hanover and Bremen in 1898. There are now 28 foreign trade zones in Europe and many more scattered throughout the Orient and other parts of the world. In practically all cases the result of the establishment of free zones has been an increase in the commerce, shipping, and employment in the port or district where it was established.

The port of Hamburg, Germany, found that its trans-shipment trade contributed so much to employment of dock labor, of shipping and warehousing and to the general welfare of the port, that for a long time it hesitated to join the German Customs Union and remained a free state on German soil for eleven years after the foundation of the empire. When in 1882 it joined the Customs Union its foreign trade zone was opened for handling trans-shipment business, which grew to an estimated value of \$200,000,000 by 1914.

In these days when hundreds of American ships are laid up or operating at a loss, when 5,000 of the stevedores in the port of New York are reported to be out of work, when warehouses are 40 per cent unoccupied, the United States should not overlook any opportunity to create employment and to increase earnings by offering every opportunity to American citizens to handle as much of the trans-shipment trade between other countries of the world via our ports as it may be possible to secure through the establishment of foreign-trade zones.

No port authority, city or private corporation can, under existing law, establish a free port in the United States except to the extent that special acts permit limited display at the Rockefeller Center, the Chicago World's Fair, and similar expositions. The first step must be enactment of federal legislation permitting the establishment of foreign-trade zones under proper supervision and regulation. Agitation for such legislation has been carried out sporadically for more than a decade. In 1919 a number of Chambers of Commerce all over the United States established a National Free Zone Association in which the Merchants Association in New York played an active part and attempted, unsuccessfully to secure Federal legislation.

More recently when the Hawley-Smoot tariff bill was under discussion, representatives of the United States Chamber of Commerce and of several local chambers and port interests, appeared before the House Ways and Means Committee and the Senate Finance Committee to urge the incorporation of a section in the administrative clause of the act which would permit the establishment of a foreign-trade zone. These efforts were unsuccessful.

A nation-wide campaign of education is necessary to show our citizens living away from the seaboard the advantages to American shipping and American business of permitting the establishment of these zones. Their fear of a breakthrough in the tariff wall and of dumping of foreign goods in competition with our own manufacture must be removed by education as to the true purpose and intent of free-port legislation.

The Port of New York Authority has been active in support of the necessary legislation. The commissioners have gone on record by resolution and communications to Senators and Representatives from New York and New Jersey. As recently as March, 1932, letters were sent calling attention to the Jones bill in the Senate (S. 1676) and the Celler bill in the House (H. R. 9206) both of which provide for authority to the Treasury Department to permit the establishment of foreign trade zones with proper safeguards and regulations.

The Port Authority was instrumental in having the pending legislation before Congress, which provided for only one free zone in each port, amended so as to allow a zone in each State where a port, such as our own, embraces parts of two States within its limits. Therefore, if the present legislation is passed it will be possible to establish a free port at the most advantageous point on the New York side and another on the New Jersey side.

What are some of the direct benefits to shipping, business men and labor from a free port? Some of them may be briefly mentioned:

(1) The removal of imports from piers and from vessels would be facilitated so that ships might unload and depart quickly. Quick port turn-around is important to steamship earnings. Delays on account of complicated customs procedure and inspection would be eliminated in a foreign-trade zone.

(2) The owner at all times would have control of his merchandise instead of, as now, having to comply with necessary but annoying regulations in a bonded

warehouse. To-day, he can not move a package in a bonded warehouse, mix or repack it without requesting and paying for the services of customs inspectors. Neither can he transport a package from one ship to another or from one warehouse to another without securing a bonded truckman or lighterman who must file receipts, post bonds, at every move.

(3) Capital which is now tied up in duties paid on articles subject to "drawback" for export after refining or processing, could be released under a free-port system at considerable savings in interest charges. Raw sugar received from Cuba, which is refined in the United States for reexport, could be processed in the foreign-trade zone without the difficulties of paying duty and then trying to collect 99 per cent of it back again at a later date under the drawback system; the same for oil, linseed, copper and hundreds of other commodities which come here for refining or processing in transit.

(4) Foreign-trade zones would relieve congestion on steamship piers, a situation which was often aggravated when consignees used the customs routine as an excuse for leaving their goods on the dock for days. In a free zone the goods could be promptly removed to warehouse since no customs inspection would be required except on such part of the cargo as is taken through the barrier for sale in the United States.

(5) More and better balanced cargoes could be secured for ships calling at our ports. The United States Shipping Board makes a point of this in its report on Foreign Trade Zones, published in 1929. It says: "The free port is essentially a maritime institution. It has its economic cornerstone in the load factor, and its proper location is at the crossroads of shipping lanes."

The port of New York would be one of the most advantageous locations in the United States for a foreign-trade zone because it is at the crossroads of shipping lanes. Fast and frequent service is maintained to practically every port in the world. It is an important point of trans-shipment for goods moving between Canada, the West Indies, Central and South America, in the Western Hemisphere, and Europe, Asia, and Africa in the Eastern Hemisphere. Joint steamship tariff arrangements make it possible to ship via one line from the West Indies to New York and thence by another line from New York to Europe as cheaply as it is possible to ship by the direct but infrequent services between the West Indies and Europe. Jamaica ships to England via the port of New York. Peru ships millions of dollars' worth of copper to Europe via the port of New York. Europe ships to Mexico via the port of New York.

Approximately 70 per cent of the trans-shipment and in transit trade between foreign countries via the United States ports passes through the port of New York. This trade through New York last year amounted to \$121,000,000 worth of goods. In 1928 the intransit and trans-shipment trade for New York amounted to nearly \$250,000,000 and for the country as a whole, \$427,000,000. To this may be added reexports of raw materials or semimanufactures processed in the United States and exported to foreign countries. These have amounted in recent years to nearly \$100,000,000 per annum. These figures seem small in comparison with the reexports of countries such as the United Kingdom which have long had free movement of trans shipment and reexport trade. The reexport business of the United Kingdom in recent years has amounted to over \$600,000,000. The transit trade of Belgium reached \$588,000,000 in 1924. The transit and reexport trade of France in 1925 amounted to \$736,000,000.

Because the United States is one great unit without international trade barriers foreign-trade zones could not be expected to handle as much transshipment and reexport business in the Western Hemisphere as do the European ports through which pass the trade of many small nations, each having a separate tariff wall. Nevertheless the opportunity of handling more of the trade of the Western Hemisphere through United States ports, and giving employment to our shipping, dock labor, and warehousemen is attractive.

Who are in favor of foreign-trade zones? I prefaced my remarks by referring to the campaign of the dock commissioner of New York City, and to the impetus given by Doctor Butler, of Columbia University. An impressive list can be drawn up of the organizations and individuals who have indorsed the foreign-trade zone idea. Here in our own port the New York State Chamber of Commerce, the Merchants Association, the Brooklyn Chamber of Commerce, Newark Chamber of Commerce, and many other organizations have indorsed and actively campaigned for this principle. The Port of New York Authority has been a steady adherent of the idea for years. Outside of the port of New York practically every seaboard port authority and chamber of commerce from Boston to Seattle have indorsed the legislation necessary to permit the establishment of free zones. The American Association of Port Authorities has indorsed it. The United

States Chamber of Commerce, after an exhaustive study, came out in support of it. The United States Department of Commerce, under then Secretary Herbert Hoover, indorsed and recommended passage of the bill; the United States Tariff Commission and the United States Shipping Board have reported on the subject. The bill introduced by Senator Jones, of Washington, in 1926, was reported favorably by the Senate Committee on Commerce, but to date neither House of Congress has passed the necessary enabling legislation.

I repeat that if foreign-trade zones are to be established in the port of New York, or anywhere else in the United States, for the benefit of our shipping, our business men, our labor, there must be concerted action to secure favorable congressional action and not the least important item in such a program is a campaign of education throughout the entire country, a campaign in which I hope this radio broadcast may play a part.

Mr. CULLEN. The next witness is Mr. Welch of California.

Mr. Welch has introduced H. R. 4726, which is before the committee and which, without objection, will be made a part of the record. (H. R. 4726 is as follows:)

[H. R. 4726, Seventy-second Congress, first session]

A BILL To provide for the establishment, operation, and maintenance of foreign-trade zones in ports of the United States

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Secretary of the Treasury, upon the recommendation of the Secretary of Commerce, may grant to public corporations the privilege of establishing, operating, and maintaining foreign-trade zones in or adjacent to ports of entry in the jurisdiction of the United States.

SEC. 2. Foreign and domestic merchandise of every description, except such as is prohibited by law, may, without being subject to the customs laws of the United States, except as otherwise provided in this act, be brought into a zone and there stored, exhibited for the purpose of taking orders, broken up, repacked, assembled, distributed, sorted, refined, graded, cleaned, mixed with foreign or domestic merchandise, or otherwise changed in condition, but not manufactured, and be exported, and foreign merchandise may be sent into customs territory of the United States therefrom, in the original package or otherwise; but when foreign merchandise is so sent from a zone into customs territory of the United States it shall be subject to the laws and regulations of the United States affecting imported merchandise.

SEC. 3. The Secretary of the Treasury, with the cooperation of the Secretary of Commerce, shall prescribe such regulations as may be necessary for the purpose of selecting locations for foreign-trade zones, maintaining adequate facilities for the transaction of business therein, protecting the revenue, and regulating the entry and clearance of vessels into and from foreign-trade zones, and shall prescribe the conditions for revoking a grant of a concession for the establishment of a foreign-trade zone.

SEC. 4. Any person violating any regulation made by the Secretary of the Treasury under authority of section 3 of this act shall, upon conviction thereof, be fined not more than \$1,000.

#### STATEMENT OF HON. RICHARD J. WELCH, REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. WELCH. Mr. Chairman and gentlemen of the committee, on this important subject, exhaustive hearings have been held<sup>1</sup> and volumes have been printed. I have here a number of public documents issued by the United States Government in reference to foreign-trade zones, but I am not going to offer them for the record.

Mr. McCORMACK. Will you put those references in the record?

Mr. WELCH. I will make reference to them.

Mr. McCORMACK. Can you give us those references now?

Mr. WELCH. Yes, I can, but I prefer to make reference to them as I proceed, and will include a list of titles of the documents referred to, for the record.

There are now pending before Congress and your committee two bills, one of which is H. R. 4726 introduced by me. I have had a similar bill before Congress for a number of years past but, by reason of economic conditions, during the past three or four years, I have refrained from urging consideration of the bill or the policy except sufficiently to keep it alive, anticipating a more favorable time when Congress would seriously consider enacting into law a measure providing for the establishment of foreign-trade zones in the United States.

We should not confuse foreign trade zones in this country with free ports in foreign countries which might carry the inference or the suggestion that we are opening the ports of the United States to free trade, which is not the purpose of the bill. The bill under consideration provides for the establishment, operation and maintenance of foreign trade zones in ports of entry in the United States. Its chief purpose is to expedite and encourage commerce in goods for free export. It calls for a more liberal policy than is provided for in the tariff act of 1922, or the tariff act of 1930.

Permit me then, at the outset, to give you a brief outline of the first investigations of foreign trade zones made by our own Government experts. Foreign trade zones are a subject of great interest and the subject has been under consideration in this country for many years.

The act of September 8, 1916, creating the United States Tariff Commission (section 702) declares:

It shall be the duty of said commission to investigate the administration \* \* \* of the customs laws of this country \* \* \* to investigate the operation of customs laws \* \* \* and to submit the reports of its investigations.

The duty of investigation of the administration of the customs laws carries with it a consideration of the bonded warehouse and the drawback systems as instrumentalities for assisting reexport in foreign trade.

The first specific request for investigation and report on foreign trade zones was made by the chairman of the Ways and Means Committee, August 16, 1917.

Mark you, Mr. Chairman and gentlemen of the committee, as I said at the outset, this matter has been before Congress for a great many years and is not new legislation.

On May 4, 1918, the Senate Committee on Commerce formally requested the Tariff Commission to report on the merits and propriety of Senate bill 4153, which had for its purpose the establishment of such zones.

The Tariff Commission then proceeded to make an investigation. Six months afterwards, on November 20, 1918, the commission rendered to the Senate Committee on Commerce a comprehensive report. This report was based on the following: Commission hearings in San Francisco, New York, and Philadelphia; special investigations in New Orleans and Galveston; questionnaires submitted to several hundred American merchants and shippers; studies of the history, operation, laws and regulations of foreign trade zones in European ports; and personal interviews with men familiar with foreign trade zone products.

The Tariff Commission's report was decidedly in favor of the establishment of these zones in American ports. Let me remind you,

in this connection, that the Tariff Commission in 1918 was headed by F. W. Taussig, one of America's greatest economists.

Now, all of you must bear in mind that our ports have always handled goods for reexport. Regardless of the fact that since this report was made, we have entirely neglected to provide adequate facilities for this kind of commerce, it has grown notwithstanding. The average for the years 1911 to 1920 was \$75,000,000; in 1927 it was \$107,000,000. That is for reexport. I have not the figures for recent years, but they compare favorably up until 1930, as a matter of fact, there was an increase over those figures during the period from 1920 to 1930.

Mr. CULLEN. Mr. Welch, Congressman Watson propounded a question in reference to goods that would enter the free-trade zone, go through some manufacturing or processing, and then be reexported. Would not that be a discrimination against domestic goods?

Mr. WELCH. My bill does not provide for manufacturing within the zones.

Mr. CULLEN. We would like to get your expression of opinion about that.

Mr. WELCH. I am not in favor of manufacturing in foreign-trade zones. I am, however, in favor of processing.

Mr. WATSON. What is the difference between processing and manufacturing?

Mr. WELCH. Manufacturing within a zone, such as in the free port of Hamburg, which is a vast industrial area, is a different matter entirely.

Mr. WATSON. Suppose they imported fish and then put them in tin cans here and then reexported them. Would that be permitted under your act?

Mr. WELCH. That would not be manufacturing. There would be no manufacturing within the zones under the provisions in my bill. It is expressly prohibited.

Mr. WATSON. In other words, they could import tuna fish from Japan, without any duty on it whatever, pack it in tin cans and reexport it. That would be against the interests of your own fishing industries on the coast, would it not?

Mr. WELCH. You are assuming that they are going to manufacture and pack in tin cans. We are not assuming that.

Mr. WATSON. Your bill says, "repack, assemble, distributed, and so forth."

Mr. WELCH. The bill does not permit any manufacturing, if that is what the gentlemen has in mind.

Mr. WATSON. The language of your bill reads:

Exhibited for the purpose of taking orders, broken up, repacked, assembled, distributed, sorted, refined, graded, cleaned, mixed with foreign or domestic merchandise, or otherwise changed in condition \* \* \*.

That gives them a large latitude. You could get this from Japan, which would be imported without any duty, then you could repack it and assemble it and distribute it. Certainly that would come within the language of your bill.

Mr. WELCH. Is the gentleman aware of the fact that this bill, if enacted into law, would eliminate many of the red tape features that are included in the present law in handling goods for reexport?



May I repeat, it is not the intention, and by no stretch of the imagination should one come to the conclusion, that under the provisions of this bill the setting up of manufacturing industries within the foreign-trade zones will be permitted.

Mr. WATSON. You use the terms "repack" and "assemble."

Mr. WELCH. That is permitted at the present time.

Mr. VINSON. If that is true, why do you include it in your bill now?

Mr. WELCH. It allows a freer handling of goods in transit for re-export under present conditions. If the gentleman will permit me to proceed, I am sure I will be able to convince him on that point.

Mr. VINSON. You say that is provided in the act of 1930.

Mr. WELCH. As liberalized under the act of 1930 and under the act of 1922.

Mr. VINSON. If that is true, why reenact those provisions?

Mr. WELCH. We want to further liberalize those provisions, but not for the purpose of manufacturing.

Mr. VINSON. Wherein are the rights conferred in this bill different from the rights as set forth in the act of 1930?

Mr. WELCH. I am sure, as I proceed, I will be able to convince the gentleman that this bill would give a further liberalization to the reexporting of foreign goods than is provided for either in the tariff act of 1930 or of 1922.

Mr. VINSON. I might say I am seeking information on the subject.

Mr. WELCH. I appreciate the fact that the gentleman is seeking information.

Mr. WATSON. Suppose a free zone is established on the Atlantic coast—

Mr. WELCH (interposing): Foreign trade zone, if the gentleman please.

Mr. WATSON. It is practically the same thing. Let us assume that you import sugar from Cuba. Would not that be against the interests on your coast so far as the manufacturing and repacking of sugar is concerned?

Mr. WELCH. I do not think it would. It would be helpful both to the producer and manufacturer of sugar and also to the commerce of the port.

Mr. WATSON. We allow 125,000,000 pounds of sugar to come in from Cuba. You get sugar free from the Philippines. That is, up to a certain tonnage you are allowed to import sugar free from the Philippines. I should think this would allow a differential in favor of the foreign sugar as against the American product.

Mr. WELCH. We admit sugar free from the Hawaiian Islands by reason of the fact that Hawaii is a United States Territory.

Mr. WATSON. That is true, up to a certain number of tons. As I say, that would mean a differential in favor of the foreign merchandise.

Mr. WELCH. There is no limit on duty-free commerce from the Hawaiian Islands to the mainland. May I proceed, Mr. Chairman?

Mr. CULLEN. Proceed, please.

Mr. WELCH. It must always be borne in mind that our ports have always handled goods for free export. Regardless of the fact that, since this report was made, though we have entirely neglected to

provide adequate facilities for this kind of commerce, its volume has grown notwithstanding.

The bill now under consideration is not mandatory. It is permissive only. It permits port authorities to create a zone, at the expense of the port. Such a zone will cost the Federal Government nothing whatever. Furthermore, the foreign trade zone eliminates many costly customs formalities. It is much simpler and a more modern device for handling transshipment trade.

May I say to the gentlemen of the committee that I do not agree with the gentleman from New York, Mr. Celler, in his answers to the questions propounded by the gentleman from Massachusetts, Mr. McCormack, as to the policy of permitting the building of those zones as a private enterprise by private capital.

The question was asked if it would not be well to provide that they could be built by private capital, and maintained by private capital.

Mr. McCORMACK. My question to Mr. Celler was for the purpose of obtaining information. I have no views on the matter. I asked the question for the purpose of obtaining his views. I certainly feel he should be permitted to revise his answer, if he so desires. But let us pursue your statement a little further now. Will you give us your opinion on it?

Mr. WELCH. Foreign-trade zones, if established in the ports of this country, or in the major ports of the country, would be for the purpose of stimulating commerce and trade. The ports of the United States, with few exceptions, beginning with Maine, and continuing down along the Atlantic coast, through the Gulf, and again on the Pacific coast, from San Diego to Seattle are nearly all under public ownership. Whatever objection the people who live in the communities of the seaboard States may have as to the general policy of public ownership of public utilities, they make an exception of their ports. May I repeat that nearly every port in the United States is under public ownership, and if the suggestion—I know it is only a suggestion on the part of the gentleman from Massachusetts—

Mr. McCORMACK. It is not even a suggestion. I am merely seeking information.

Mr. WELCH. If his suggestion were carried into effect, it would mean setting up a private system of ports which would be in direct competition with public ownership of ports, which is a well-defined public policy in this country.

Mr. McCORMACK. Let us pursue that a little further. You say that it would cost the Federal Government nothing whatever?

Mr. WELCH. That is correct.

Mr. McCORMACK. It is going to cost the State government or the municipalities something, however, is it not?

Mr. WELCH. Yes; that is the question, and a very serious one, I will say to the gentleman from Massachusetts.

Mr. McCORMACK. A free port or a foreign-trade zone is an area of land within the port of entry, the city that constitutes the port of entry. It is located in some principal city or port of the United States, I assume; is that correct?

Mr. WELCH. I will give a definition of it as I proceed.

Mr. McCORMACK. From a practical angle that is true, is it not?

Mr. WELCH. Yes.

Mr. McCORMACK. And that is set aside for business purposes, certain business purposes as defined in your bill or as may be defined in a bill that may be reported by the committee and passed by the House. The principal purpose of it is to permit raw products to come into the United States without the present restrictions or difficulties in the matter of reexport, in order to give employment to American citizens, and for other purposes; is that correct?

Mr. WELCH. Together with stimulating and increasing our foreign trade.

Mr. McCORMACK. Exactly. Of course, the more you stimulate foreign trade, the greater opportunity for employment.

Mr. WELCH. Absolutely. The gentleman is correct.

Mr. McCORMACK. Let us assume it is advisable to locate one of these foreign trade zones in one of the principal ports of the United States, but the municipality has not the money with which to do it. Let us assume that private capital, subjecting itself to the regulations set up by the Federal Government, desires to do so. What objection is there to their doing it?

Mr. WELCH. Unless every port in the United States were to do the same thing, it would be discriminatory. For instance, if a group of capitalists in the city of New York or the city of Boston, the gentleman's city, or in my own city, the city of San Francisco, were to build a foreign-trade zone with private capital (if it were permitted under the law), other communities unable to privately finance a foreign-trade zone would, as a result, suffer a serious loss of their port business.

Mr. McCORMACK. That is true, but why should the citizens of one port be held down on a lower level because of the lack of interest in a proposition of this kind in the citizens of another port?

Mr. WELCH. If I might be permitted to make a suggestion to the honorable committee, it would be that after hearing arguments on the question of establishing foreign-trade zones in the United States, you secure further information as to the financial ability of the several ports in the United States, to avail themselves of the privilege of establishing foreign-trade zones under the provisions of the bill under consideration.

Mr. McCORMACK. Mr. Welch, I assume that if the city of Boston applies for the privilege of establishing a free port, and their application is approved by the Secretary of Commerce, the city of Boston would have to purchase some land, which would mean a capital investment; that is true?

Mr. WELCH. Unless they have land available.

Mr. McCORMACK. Either they would have to have land available or have to purchase land. I assume there would have to be warehouses and other facilities erected within this area and I assume that private interests would lease a portion of this free zone or foreign-trade zone for their own business purposes, and the city would charge them rentals or the free port or authorities would charge them certain rentals.

Mr. WELCH. As they do now in all ports that are publicly owned.

Mr. McCORMACK. Exactly. Now, do you not think there would be a greater stimulation of business if private capital were allowed, were it interested, to enter into this business than if it were confined alto-

gether to some board constituted by a State law to take charge of any such free port?

Mr. WELCH. I am unalterably absolutely opposed to private ownership or private control of the harbors of this country. It is contrary to sound public policy. The seaports of this country, as the Nation's gateways to the seven seas, are a God-given heritage; they belong to all the people and should be publicly owned.

Mr. McCORMACK. But this is not a harbor.

Mr. WELCH. A foreign trade zone would automatically become a part of a harbor.

Mr. McCORMACK. We have private ownership over commerce now. We have public control and regulation of our ports, but in Boston, the city of Boston or the State of Massachusetts does not own the land on the water front of the port of Boston. The land is owned privately and is used in the conduct of private business.

Understand, I am not disagreeing with your contention; I am merely seeking information. I want to find out what objection you would have to broadening the bill to permit private capital, under public regulations, to finance a free port in the event that the State or the local municipality is unable to do so or does not want to do so. What objection would there be to that?

Mr. WELCH. I would have no objection as to the investment of private capital. It would have to be understood, however, that private interests would have nothing to do with the ownership, control, and operation of any port in this country through foreign-trade zones. That is not, as I said, good public policy, and is contrary to public sentiment as expressed in nearly every seaboard section of the United States, from Maine to Puget Sound.

Mr. McCORMACK. I thoroughly agree with you.

Mr. WATSON. Let us assume that free ports are established by these public corporations. One is established in New York. And the people of Michigan, where they manufacture a great deal of furniture, for which they import wood from Canada, apply for the privilege of establishing a free port so that they can get their wood in from Canada which goes into that furniture. The Government will say, "We do not want you to do that." Is not that a discrimination in favor of one port against another?

Mr. WELCH. That would not be permitted under the provisions of the bill, section 2 of which provides that when foreign merchandise is sent from a zone into customs territory of the United States it shall be subject to the laws and regulations of the United States affecting imported merchandise.

Mr. WATSON. I do not understand why it would not be. One port favors one commodity, sugar, and it does not favor another commodity, wood, which is imported from Canada into Michigan. The quantity of furniture manufactured in Michigan is tremendous. It is an important industry. I do not see how you are going to fairly distribute these free zones.

Mr. CULLEN. Of course, Mr. Welch, you understand that the State of New York, by an act of its State legislature, at a time when I happened to be a member of that State legislature, created the port authority which was given jurisdiction to some extent over the harbor of New York and the port of New York. In the event of such a zone being established in the port of New York, no monies would



be coming from the Federal Government or the State government or the municipal government, because the Port of New York Authority has the right under its act to issue bonds, for any improvements that they might want to make.

I have already included in the record a communication from the port of Virginia, which is an organization similar to the Port of New York Authority advocating to some extent the passage of legislation of this character. I am wondering if you have any port authority in San Francisco?

Mr. WELCH. We have what is known as the Board of State Harbor Commissioners. The harbor of San Francisco is owned and controlled by the State of California, the State owning the land as well as the piers and docks.

Mr. McCORMACK. Mr. Welch, I was just seeking information. I have no pride in any opinion about this. I want to get the benefit of your knowledge, because you have given this subject deep study. I thoroughly agree with you. I see no reason why a State or city should not do this if it wants to do this. But I was wondering if the principle of the bill could not be broadened to allow private capital to enter. I wanted to find out why that would not be better in the first instance, and in the second instance, if a locality or subdivision of the State does not want to do it, and there was some private capital that did want to do it, why should there be a restriction against them?

Mr. WELCH. That is a matter for further consideration.

Let me say this to the gentleman from Pennsylvania (Mr. Watson), who made reference to the State of Michigan. The chamber of commerce of the city of Detroit has indorsed the principle of this bill. The chamber of commerce of almost every large city in the United States has indorsed the policy of foreign-trade zones.

Mr. WATSON. They might indorse it, but that does not give it to them.

Mr. WELCH. Well, they are in favor of it. The only objection which has been made to those zones has been made in Congress. I say this without any reflection whatsoever. My best judgment is, since I have been in Congress, that Congress has not given proper consideration to the importance and the necessity of foreign-trade zones.

The people that handle the commerce of the country, the United States Chambers of Commerce, and the chamber of commerce of nearly all the large cities in the United States have indorsed this principle and they have sent their representatives here in times past. In view of the exhaustive studies that have been made, and the volumes that have been printed at the expense of the Government, in reference to this policy, it is most remarkable that with those most interested favoring foreign-trade zones, and with no apparent opposition, that so little progress has been made in Congress.

Mr. WATSON. In 1919 there were exhaustive hearings on this question.

Mr. WELCH. If this hearing did not result in anything further than the authorization of this committee by Congress to make a study of the various questions which the gentleman from Massachusetts has referred to, and also the gentleman from Pennsylvania, as to the ability of the different States or communities to control their harbors,

to finance the construction of foreign trade zones, it would be a construction step, and we would welcome such an investigation on the part of Congress.

Mr. VINSON. Coming back to the power granted under the tariff act of 1930, as compared with the specific power granted in your bill, I fail to find in the act of 1930 anything that permits the breaking up, or the repacking, or the assembling, distributing, sorting, grading or refining, or mixing with foreign or domestic merchandise, or otherwise changing conditions.

As I read the warehouse period section, it deals with drawbacks. That is section 557 which provides that—

Any merchandise subject to duty, with the exception of perishable articles and explosive substances, other than firecrackers, may be entered for warehousing and deposited in a bonded warehouse at the expense and risk of the owner, importer, or consignee. Such merchandise may be withdrawn, at any time within three years (or 10 months in the case of grain) from the date of importation, for consumption upon payment of the duties and charges accruing thereon at the rate of duty imposed by law upon such merchandise at the date of withdrawal.

Has the gentleman in mind any other section of the act of 1930 that gives the specific rights referred to in section 2 of your bill?

Mr. WELCH. I do not think the tariff act of 1930 nor the act of 1922 recites all the things permitted within a bonded warehouse.

I would respectfully suggest that the gentleman ask that question of the representatives here present who are in the reexport business.

Mr. WATSON. The question of the difference between the free zone and the drawback amounts to this. When you have the drawback you have to pay the duty, amounting to from \$40,000 to \$50,000 on a vessel load, or you have the importer losing the interest as well as the 1 per cent, and therefore the free zone is an advantage because you do not have to pay duty upon the arrival of the imported article.

Mr. VINSON. No; but under the Welch bill, after the goods are processed, when they are extracted or taken from the free zone then the duty is paid.

Mr. WATSON. It is not paid if it is exported.

Mr. WELCH. My attention has been called to section 555 of the tariff act of 1930, in which there is this provision:

Buildings or parts of buildings and other inclosures may be designated by the Secretary of the Treasury as bonded warehouses for the storage of imported merchandise entered for warehousing, or taken possession of by the collector, or under seizure, or for the manufacture of merchandise in bond, or for the repacking, sorting, or cleaning of imported merchandise. Such warehouses may be bonded for the storing of such merchandise only as shall belong or be consigned to the owners or proprietors thereof and be known as private bonded warehouses, or for the storage of imported merchandise generally and be known as public bonded warehouses. Before any imported merchandise not finally released from customs custody shall be stored in any such premises, the owner or lessee thereof shall give a bond in such sum and with such sureties as may be approved by the Secretary of the Treasury to secure the Government against any loss or expense connected with or arising from the deposit, storage, or manipulation of merchandise in such warehouse. Except as otherwise provided in this act, bonded warehouses shall be used solely for the storage of imported merchandise and shall be placed in charge of a proper officer of the customs, who, together with the proprietor thereof, shall have joint custody of all merchandise stored in the warehouse; and all labor on the merchandise so stored shall be performed by the owner or proprietor of the warehouse, under supervision of the officer of the customs in charge of the same, at the expense of the owner or proprietor. The compensation of such officer of the customs and other customs

employees appointed to supervise the receipt of merchandise into any such warehouse and deliveries therefrom shall be reimbursed to the Government by the proprietor of such warehouse.

Mr. VINSON. That is not as broad as the power provided for in your bill. You bill provides, "mixed with foreign or domestic merchandise, or otherwise changed conditions."

Mr. WELCH. May I say to the gentleman that if we considered it sufficiently broad at present we would not be here presenting arguments asking for more liberal provisions. We are trying to demonstrate the necessity of liberalizing the present provisions of the tariff act.

Mr. VINSON. But the gentleman made the statement that you had the power under the act of 1930. That is the reason for the interrogation.

Mr. WELCH. Would not the wording of section 555 of the tariff act of 1930 convey that to the gentleman?

Mr. VINSON. No, not with the powers as set forth in section 2 of your bill. It does not say anything about mixing with foreign or domestic merchandise. It does not say anything about refining. It might say something about grading—I do not know.

It may be that those powers should be granted, but if they are granted, I want them to be granted with my eyes open.

Mr. WELCH. I sincerely hope they will be.

Mr. VINSON. They are going to be.

Mr. WELCH. I hope the gentleman's eyes will be opened to the necessity of liberalizing the present provisions of the tariff act through the medium of a foreign trade zone bill, either in the form that is now before the committee or in an amended bill.

Under present regulations, goods arriving in this country for re-export have to be entered, examined, and assessed just as laboriously as if they were intended for domestic use. These formalities are absolutely necessary, unless a carrier is immediately available to transship them on the way to their ultimate foreign destination.

Whenever such goods have to be stored awaiting transshipment, they can be stored only in a bonded warehouse, if they are to be exempt from duty.

Under section 562 of the 1922 tariff act, liberalized under the provisions of the 1930 tariff act, the owner of such goods can store them without paying the duty, provided he puts up a bond in the amount of double the duty. This bond is forfeited if the goods are stolen, lost, destroyed, or fraudulently removed. All drayage between the dock and the warehouse must be done under bond.

In a foreign-trade zone, the owner would not be delayed and hampered with such restrictions and formalities.

What is a foreign-trade zone? You have had a definition from the gentleman from New York, as read into the record. Experts define a foreign-trade zone as follows:

A foreign-trade zone is a place limited in extent that differs from adjacent territory in being exempt from the customs laws as affecting goods destined for reexport; it means simply that, as regards customs duties, there is freedom, unless and until goods enter the domestic market. A foreign-trade zone may be defined as an isolated, inclosed, and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unloading, for supplying fuel and ship's stores, for storing goods and for reshipping them, by land and water; an area within which goods may be landed,

stored, mixed, blended, repacked, and reshipped, without payment of duties, and without the intervention of customs officials. It is separated from surrounding territory by stockade. Goods can not pass this stockade into the hands of the consuming public without undergoing customs revision and paying the full tariff duty.

Before the incorporation of the present revisions in the 1922 tariff act and in the 1930 tariff act, the owner of goods for storage and reexport would have to pay the full duty on their arrival in the bonded warehouse. When he withdrew them for shipment, he could draw back 99 per cent of the duty he had paid.

Under present regulations, he is relieved of paying the duty, it is true. But is there not just as much formality and red tape as under the old system? Does not the owner incur the same annoyance and delay of having his goods examined, entered and assessed? Should a port doing a vast amount of reexport business, have its commerce restricted because of the physical limitations of the bonded warehouse?

There is a point for consideration, gentlemen of the committee. A bonded warehouse is very limited in area. It does not provide the facilities necessary for a great port of entry, particularly when that port handles goods for reexport.

In answer to these questions, let me invite your careful attention to the opinion expressed by President Herbert Hoover when he was Secretary of Commerce, in a letter written on December 19, 1925, after the tariff act of 1922 had been in operation more than three years.

The letter is addressed to the late, lamented Senator Jones, of the State of Washington, who was referred to a few moments ago. The letter says:

Complying with your request of the 12th instant for a report from this department on Senate bill No. 66, entitled "To provide for the establishment, operation, and maintenance of foreign-trade zones in ports of entry of the United States, to expedite and encourage foreign commerce, and for other purposes," it is my opinion that properly located foreign-trade zones would facilitate and encourage the export trade of the United States and be of material benefit to our merchant marine, for the following reasons:

1. It will promote and expedite our transshipment trade by eliminating the customs formalities and difficulties under our present system of warehousing for reexport.

In the course of the tariff revision of September, 1922, customs administrative regulations were so liberalized that many of the activities relating to foreign merchandise under section 3 of the bill, are now allowed in bonded warehouses without requiring the payment of duties; however, they are so encumbered with requirements, such as filing manifests, making formal entry of all foreign merchandise whether intended for ultimate entry into this country or not, having goods weighed or otherwise examined before they are allowed to be deposited in bonded warehouses, that the privileges available are not sufficiently attractive to be used to any great extent.

That applies to the provisions of the act of 1930, which did liberalize them to some extent, but they still have the same red tape to go through in the case of reshipment, with the same conditions referred to by President Hoover, who was then the head of the Department of Commerce. His letter to the late Senator Jones goes on to say:

2. It would place this country in a better position to take advantage of our large consumption of many foreign raw materials and distribute such among foreign countries.

3. It would improve the opportunity for obtaining full cargoes for American ships both ways—

which is a matter for serious consideration, gentlemen—

and result in a more economical use of our merchant marine by eliminating delays due to customs formalities.

In my opinion, the bill is designed to accomplish the foregoing, and I therefore indorse it and recommend its passage.

The following are the views developed and indorsed by the members of the Chamber of Commerce of the United States. They were submitted to this committee by William Butterworth, president of the chamber, February 11, 1929:

We favor legislation permitting the creation in American ports, of foreign-trade zones into which foreign materials may be transported for manufacture, repacking and other necessary handling, and then shipped to foreign destinations without the expense and delay incident to passage through the customs. The establishment of such zones, by local bodies, at their own expense, under approved Federal regulation, would provide part of the equipment needed by a country, such as our own, doing a diversified international trading business. The establishment of such zones would, we believe, inure to the benefit of American industry, American commerce, and American merchant shipping.

You will note that the United States Chamber of Commerce believes that manufacturing should also be permitted in foreign-trade zones. Many other commercial bodies have expressed themselves likewise. In the bill under consideration, gentlemen, we do not ask for that. In fact, one of the provisions expressly prohibits manufacturing.

Mr. McCORMACK. Can you give us, or later put in the record, information as to the amount of foreign goods which have come into the United States for the past several years and which have been reexported?

Mr. WELCH. I will be glad to furnish that information, to the gentleman personally, and also for the record.

(Mr. Welch later filed the following letter containing the information referred to above:)

DEPARTMENT OF COMMERCE,  
Washington, February 17, 1933.

HON. RICHARD J. WELCH,  
House of Representatives, Washington, D. C.

MY DEAR CONGRESSMAN: In compliance with your telephone request of this date, I take pleasure in quoting below the exports of foreign merchandise (reexports) from the United States during the calendar years 1920 to 1930, inclusive:

1920.....	\$147, 535, 486	1926.....	\$96, 939, 347
1921.....	106, 103, 332	1927.....	106, 511, 655
1922.....	66, 686, 628	1928.....	98, 257, 740
1923.....	76, 777, 989	1929.....	83, 912, 175
1924.....	93, 334, 536	1930.....	62, 008, 991
1925.....	91, 125, 076		

Very truly yours,

JOHN MATTHEWS, JR.,  
Assistant Director.

Inclosure 76934.

Mr. WELCH. Those of us who have been following this matter for a number of years are perhaps a little hazy, because we did not know it was going to be considered at this time, and as I stated, I had not urged it during recent years on account of economic conditions, and I repeat that I think economic conditions should be seriously considered. The bill under consideration contains the principle in refer-

ence to foreign trade zones as indorsed by the United States Chamber of Commerce, the Chamber of Commerce of the State of New York, the Merchants' Association of New York, The Port of New York Authority, the Boston Chamber of Commerce, the Philadelphia Board of Trade, the Baltimore Association of Commerce, the Export and Import Bureau of Baltimore, the New Orleans Association of Commerce, the New Orleans Cotton Exchange, the Chicago Association of Commerce, and the San Francisco Chamber of Commerce. You will find that almost every important city in the country has endorsed the principles contained in this bill.

Agreeable to the request of the gentlemen from Massachusetts, Mr. McCormick, I now offer for the record the titles of public documents on foreign-trade zones, as referred to by me at the beginning of my statement:

(1) Sixty-fifth Congress, second session; Senate Committee Print. Free zones in ports of the United States. Letter from the United States Tariff Commission transmitting, in compliance with the request of the Senate Committee on Commerce, a report upon the policy of establishing free zones in ports of the United States, together with an analysis and comment concerning the bill (S. 4153) to provide for the establishment, operation, and maintenance of free zones in the ports of the United States, and for other purposes. Printed for the use of the Committee on Commerce.

(2) Free zones in ports. Hearings before the Subcommittee on Commerce, United States Senate, Sixty-sixth Congress, first session, on S. 3170, a bill to provide for the establishment, operation, and maintenance of foreign-trade zones in ports of entry of the United States, to expedite and encourage foreign commerce, and for other purposes. October 10, 11, and 21, 1919.

(3) Calendar No. 270. Sixty-seventh Congress, first session, Senate Report No. 257. Foreign-trade zones in ports of the United States. August 15, 1921. Ordered to be printed. Mr. Jones of Washington, from the Committee on Commerce, submitted the following report. (To accompany S. 2391.)

(4) Calendar No. 499. Sixty-eighth Congress, first session, Senate Report No. 477. Foreign trade zones in ports of the United States. April 24 (calendar day April 28), 1924. Ordered to be printed. Mr. Jones of Washington, from the Committee on Commerce, submitted the following report. (To accompany S. 2570.)

(5) Sixty-seventh Congress, second session, Senate Document No. 239. Free zones in ports of the United States. Letter from the United States Tariff Commission, transmitting in compliance with the request of the Senate Committee on Commerce, dated May 3, 1918, a report upon the policy of establishing free zones in ports of the United States, together with an analysis and comment concerning the bill (S. 4153) to provide for the establishment, operation, and maintenance of free zones in the ports of the United States, and for other purposes, as introduced in the Sixty-fifth Congress.

(6) Calendar No. 729. Seventieth Congress, first session, Senate Report No. 713. Foreign trade zones in ports of the United States. April 6, 1928. Ordered to be printed. Mr. Jones, from the Committee on Commerce, submitted the following report. (To accompany S. 742.)

(7) Foreign trade zones (or free ports). Corps of Engineers, United States Army, Bureau of Operations, United States Shipping Board. War Department. Corps of Engineers, United States Army, and United States Shipping Board. Miscellaneous series No. 3. Foreign trade zones (or free ports). Analyzed with special reference to the advisability of their establishment in the United States. Prepared by the Board of Engineers for Rivers and Harbors, War Department, and the Bureau of Operations, United States Shipping Board.

Mr. CULLEN. We thank you very much, Mr. Welch. We will now be glad to hear Mrs. Norton.



**STATEMENT OF HON. MARY T. NORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY**

Mrs. NORTON. Mr. Chairman, and members of the committee, I simply want to take the opportunity to present to the committee, Mr. Edwin B. Lord, the executive officer of the Chamber of Commerce of Jersey City, who wishes to be heard, and also Maj. Philip Guise, representing the engineering department of Jersey City.

I believe that the State of New Jersey would greatly benefit by the establishment of a free zone system. No other city in the country has more natural advantages for a free zone than has Jersey City.

My understanding of a free zone is that it is a district near a port within which the customs authorities do not enter, but confine their activities outside of this district, and to guarding its boundaries, and it is a district within which, upon entering, the products do not have the effects of customs supervision, but at the same time the protective and revenue-producing provisions of the tariff system are retained.

It should consist of a district equipped with wharves, warehouses, industrial facilities, and facilities for the transportation of merchandise. We think our city is ideally located for the establishment of such a zone.

However, I will leave the details of the matter, and a further discussion of it to the gentlemen whom I would like you to hear.

Mr. CULLEN. We will be glad to hear them in their turn.

Mr. Houston, we will be glad to hear you at this time.

**STATEMENT OF HON. VICTOR S. K. HOUSTON, THE DELEGATE IN CONGRESS FROM THE TERRITORY OF HAWAII**

Mr. HOUSTON. Mr. Chairman, I do not want to take any of the committee's time except to state that if and when after a study of this matter of the free trade zones it is decided to bring out a bill, I would ask that the draft of the bill be so worded as to include the Territories in connection with the functioning of such corporations or entities which may be authorized to establish and operate the free trade zones. The Welch bill is correctly drafted so as to include Hawaii, but the Celler bill, H. R. 9206, would have to be amended on page 1, lines 6 and 8, by adding after the word "State" the word "Territory"; also on page 6 of the same bill, line 13, after the word "State", the word "Territory".

The Chamber of Commerce of Honolulu has indicated a great interest in this matter and has consistently advocated the passage of a measure that would allow the establishment of such organizations.

Mr. CULLEN. We will now hear Mr. Leasure, representing the United States Chamber of Commerce.

**STATEMENT OF CHESTER LEASURE, REPRESENTING THE CHAMBER OF COMMERCE OF THE UNITED STATES**

Mr. LEASURE. Mr. Chairman, I shall take just a moment to present to the committee a very brief statement on behalf of Mr. H. I. Harriman, president of the Chamber of Commerce of the United States, and ask the privilege of filing a report, in the nature of a brief, in favor of the free zone system.

Mr. Harriman's statement is as follows:

For many years the chambers of commerce and trade associations comprising the membership of our organization have advocated that legislation should be enacted permitting the creation in American ports of so-called foreign trade zones, for the building up of transshipment trade in such ports, for the assistance of the American merchant marine and for the simplification of customs administration.

A special committee of our organization some years ago made a careful study of this subject. In its final report it reviewed the arguments in favor of and opposed to foreign trade zones; it has discussed the feasibility of such zones, and their legality. I trust you will permit me to file with your committee for inclusion in its hearings a copy of this committee's report, herewith submitted.

May I call your attention especially to the conclusions of the committee, set forth on page 22 of the report:

"In conclusion, this committee of the Chamber of Commerce of the United States believes that permissive legislation should be passed authorizing the establishment by local bodies at their own expense, under approved Federal regulation, of free zones in the ports of the United States. It is believed that a free zone is a part of the equipment of a country for doing a diversified international trading business which American business men ought to have made available to them. It is believed that with free zones in American ports the American merchant marine will benefit from an increased share in the carrying trade of the world; that American merchants and manufacturers will benefit in a variety of ways from the advantages of a wide American consignment market for foreign products; that the free zones will bring needed improvements in American port and terminal facilities; that free zones will bring added business to American banks, insurance companies, freight forwarders and warehousemen; that free zones will bring about a vast improvement of the type of facilities provided at present only by bonded warehouses and drawback, together with a simplification and saving in the work of customs administration."

That is the statement of Mr. Harriman. Now, Mr. Chairman, I should like to file with the committee and for the record a report of the special committee of the Chamber of Commerce of the United States on the subject of foreign trade zones.

Mr. CULLEN. If there is no objection, that may be done.

Does the United States Chamber of Commerce advocate an organization of local bodies in order to carry on these free zones?

Mr. LEASURE. That is the language of our recommendation.

Mr. WATSON. There are about 125,000,000 pounds of sugar imported into this country and processed. If we had a zone system and the Cuban sugar should come in free, at a lower price than the sugar made out of beets, would not that be a differential in favor of the foreign product?

Mr. LEASURE. Mr. Chairman, and Mr. Watson, may I introduce my friend, Mr. Bacher, who will answer that question.

Mr. WATSON. Can you not answer that as a representative of the United States Chamber of Commerce?

Mr. LEASURE. I am not a foreign trade expert.

Mr. WATSON. You can not answer that question yes or no?

Mr. LEASURE. No, sir. I would like to ask Mr. Bacher to answer that question.

(The report referred to is as follows:)

**FOREIGN TRADE ZONES—WHAT THEY ARE AND HOW THEY WILL BENEFIT AMERICAN TRADE**

**FOREWORD**

The Chamber of Commerce of the United States became committed, through vote of the eighth annual meeting, to advocacy of Federal legislation for free zones in the United States.

Subsequently, the board of directors authorized appointment of a committee to develop the subject, for the purpose of presenting it in its details to the chamber's membership. The members of the committee and their connections at the time of their committee service were:

Austin McLanahan, chairman; banker, of Alexander Brown & Sons; president, Export and Import Board of Trade, Baltimore, Md.  
Winston D. Adams, secretary, American Cotton Manufacturers' Association, Charlotte, N. C.  
E. L. Bogart, professor of economics, University of Illinois, Urbana, Ill.  
William C. Breed, attorney, New York, N. Y.; member board of directors, Merchants' Association of New York.  
W. Irving Bullard, cotton manufacturer; Treasurer, National Association of Cotton Manufacturers; vice president, Merchants National Bank, Boston, Mass.  
Edwin J. Clapp, transportation expert, New York, N. Y.  
F. H. Farwell, vice president, Litcher and Moore Lumber Co., Orange, Tex.  
J. D. Lowman, vice president, Union National Bank, Seattle, Wash.  
Frank C. Munson, president, Munson Steamship Line, New York, N. Y.  
George Ed. Smith, president, Royal Typewriter Co., New York, N. Y.  
Mr. Chauncey D. Snow, manager of the Foreign Commerce Department, acted as secretary to the committee.

This committee presented a report which, by order of the board, was printed for the information of members in 1921. The report, slightly revised and brought up to date as to facts about proposed legislation, is reprinted in this pamphlet. The few trade statistics cited in the original report illustrated the points made, and no later statistics have been added.

ELLIOT H. GOODWIN,  
*Resident Vice President.*

MARCH 5, 1926.

[Final report of special committee submitted Nov. 15, 1921; Revised Mar. 5, 1926]

#### REASONS FOR FREE PORTS

During the continuance of a system of free trade, England has to many intents and purposes been one great free port. In some quarters there was agitation in England for the establishment of technical free ports, but the bulk of opinion seems to have been that the British customs formalities incidental to the administration of the few revenues duties which have prevailed in England for many years have not interfered to any great extent with the transshipment and reexport business which are so important in British commerce.

When a country has not a comprehensive schedule of, and when most merchandise is exempt from, customs duties, customs supervision and customs routine are not likely to bear heavily on merchandise brought into a country temporarily and reexported, either in its original form or after manipulation or manufacture. On the other hand, in a country which does have a comprehensive schedule of customs duties, particularly protective duties that are high, customs supervision over all classes of imports becomes close, and the transshipment and reexport business are likely to become entangled in more or less necessary red tape. Accordingly, a country under a protective tariff régime which attaches importance to the building up of international commerce, and developing the transshipment and reexport business, may strive to set up machinery which will facilitate the transaction of such business, while not interfering with the operation of the protective principle for the country itself. It is in this connection that the institution of the free port or free zone in a seaport has been established in some foreign countries and has become of interest in the United States.

#### CONSIDERATION IN UNITED STATES

Free ports, or free zones, or foreign-trade zones, have been the subject of much discussion in the United States, particularly in the last few years. The free zone is an institution which at present the United States does not possess, and which a number of foreign countries, notably European countries, do possess. Naturally, the idea of free zones in ports of the United States has had its opponents as well as its vigorous advocates. The subject has been investigated by the United States Tariff Commission, and has given rise to hearings before committees of the House of Representatives and the Senate. Both independently and by reason of these various official Federal hearings, the chambers of commerce and national trade bodies have had special committees report, and have passed

resolutions or otherwise taken a position for or against free zones. In most of the commercial organizations, the proposal that there should be free zones in the United States has received hearty indorsement. As a result of its study, and hearings in various parts of the United States, the Tariff Commission came to the conclusion that there is merit in the free-zone idea and asked that it have the favorable consideration of Congress. The National Foreign Trade Council has gone on record as favoring free zones, and the list of local chambers of commerce that have approved and urged free zones is long. The principal chambers in the port cities of the country with one exception have supported the free-zone idea.

#### POSITION OF NATIONAL CHAMBER

At the eighth annual meeting of the Chamber of Commerce of the United States, a resolution regarding "foreign-trade zones" was adopted, reading as follows:

"Unnecessary obstacles and unnecessary costs, together with antiquated regulations, affect importation of materials which are to be exported after manufacture in conjunction with domestic materials, and of goods which, after being repacked, are distributed to foreign customers. Removal of these impediments will inure to the benefit of American industry, American commerce, and American merchant shipping. To this end Congress should enact legislation permitting the creation in American ports of areas where foreign materials and goods can be received for manufacture, repacking, or other necessary handling, and be distributed to foreign destinations, without the expenses and delays incident to passage through the customs."

#### BILLS IN CONGRESS

The United States Tariff Commission has recommended that Congress enact permissive legislation, making possible the establishment of foreign trade zones in ports of the United States. This recommendation was made by the commission after it had conducted hearings in 1917 and 1918 in various parts of the country.

Bills to authorize the establishment of free zones were introduced in 1918 and 1919, and received the unqualified indorsement of the Secretary of Commerce (Secretary Redfield). These bills relating to free zones would authorize the Secretary of Commerce to grant authority, upon proper application, to a State or legal subdivision thereof, or a municipality, under proper Federal regulation, to establish, operate, and maintain foreign-trade zones in or adjacent to ports of entry under the jurisdiction of the United States.

Similar bills made some progress in the Sixty-sixth, Sixty-seventh, and Sixty-eighth Congresses, and in 1926, in the Sixty-ninth Congress Senator Jones of Washington and Representative Briggs of Texas again sponsored legislation to this end. Secretary of Commerce Herbert Hoover in his annual report for 1924 urged legislation to authorize foreign-trade zones.

#### APPOINTMENT OF CHAMBER'S COMMITTEE

Although there is on record a resolution of the eighth annual meeting quoted above, it was recommended by the foreign commerce department committee of the national chamber that the subject of free zones in ports of the United States should be considered by a special committee of the national chamber, which should report on the various angles of the question concerning which the general business public has not been very much informed. The resolution referred to brings out some of the principal points in favor of free zones, but the indorsement does not cover all the purposes of free zones which their advocates hold important.

On the recommendation of the foreign commerce department committee of the national chamber, the board of directors approved the appointment of a special committee, and this committee, appointed with such approval, submits the following report.

#### DEFINITION OF FREE ZONES

The United States Tariff Commission has given the following definition of a free zone:

"A free port or free zone is a place, limited in extent, that differs from adjacent territory in being exempt from the customs laws as affecting goods destined for reexport; it means, simply, that, as regards customs duties, there is freedom, unless and until imported goods enter the domestic market. A free zone may be defined

as an isolated, inclosed, and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unloading, for supplying fuel and ships' stores, for storing goods and for reshipping them, by land and water; an area within which goods may be landed, stored, mixed, blended, repacked, manufactured, and reshipped without payment of duties and without the intervention of customs officials. It is subject equally with adjacent regions to all laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and, indeed everything except the customs."

In his book on ports and terminal facilities, Dr. R. S. MacElwee, former Director of the Bureau of Foreign and Domestic Commerce, who has made a study of free ports in Europe and written extensively on the subject, gives the following definition and description of a free port or free zone:

"The modern free port is an area of a port separated from the customs area of a nation by a stockade. Ships may enter such a port, discharge, load and depart without customs formalities. The goods may be stored, repacked, manufactured, and reexported without customs formalities. Only when the goods pass the barrier to reach the consuming public of the country do they undergo customs revision and pay the necessary duty. A free port is a 'customs outland' within the political boundary of a country."

#### SUMMARY OF ARGUMENTS

The principal arguments in favor of the establishment of free zones in the ports of the United States, and the principal arguments opposed, which were considered by the committee, are as follows:

#### IN FAVOR OF FREE ZONES

1. Free zones, with cutting of customs red tape on vessel movement and immediate inspection of merchandise, will direct increased trans-shipment trade to American ports, providing more dependable cargo volume, which will help the American merchant marine and improve the ocean services offered to American manufacturers.

2. Free zones will provide facilities for extensive consignment markets for dutiable raw materials and semi-manufactured goods; as well as for dutiable finished products.

3. The installation of free zones will provide great improvements in port and terminal facilities.

4. Free zones will make up for the inadequacy of a system of bonded warehouses and drawbacks, in so far as industries manufacturing primarily for export and dependent upon dutiable imported supplies are concerned, and in permitting the rehandling, conditioning, and reexportation of imports.

5. Free zones obviate the necessity of advancing large sums for bonds and duty payments, the expenses of customs supervision, etc., and provide an opportunity for earnings for American bankers, insurance companies, forwarders, brokers, and other engaged in handling the port's business.

6. Free zones bring about a simplification and reduction of the work of customs administration, are quite in harmony with a protective tariff system, and are easy of administration from a customs standpoint, with all due regard to the safeguarding of customs revenue and the prevention of smuggling.

#### OPPOSED TO FREE ZONES

1. The United States does not possess the geographical advantages of number and proximity of different countries (some of them inland countries), which has encouraged the creation of free zones in European ports; free zones in the United States would be uneconomic, since tending to intercept the direct movement of goods from producing to consuming countries, encouraging the processes and expenses of transshipment.

2. Free zones are a step toward free trade; foreign manufacturers would get business away from American manufacturers by having stocks readily available in American ports for the domestic market, in addition to near-by foreign markets.

3. The systems of bonded warehouses and drawbacks and the extent to which raw materials are free of duty in the United States make free zones unnecessary; their establishment would only lead to smuggling and evasion of the customs laws and would involve additional expense to protect the revenue, without benefit to the country.

4. Free zones would promote commerce or trade, rather than manufacturing.

5. Friction would arise as to which cities should have free zones and it would be difficult to comply with Article I, section 9, of the Constitution of the United States, reading: "No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another."

6. Because of the miscellaneous character of freight cargoes in practice ships must be discharged at the regular terminals and the merchandise for the free zones be transferred to the free zones.

#### TRANSSHIPMENT TRADE

The principal reason for the existence of free zones is the development of transshipment trade. In all great ports there is a certain amount of transshipment business. Vessels in line traffic, especially those making a limited number of ports, come into a port and discharge, in addition to the cargo intended for domestic distribution through the port itself, a certain amount of cargo intended for shipment to other ports not touched by the vessel in question. Other vessels coming into the port are destined to the other ports in foreign countries for which the transshipment cargo is eventually destined. These other vessels pick up the transshipment cargo and carry it to its ultimate port of destination. Obviously, from a shipping standpoint, there is a distinct advantage in having such transshipment cargo available, in order to provide adequate cargo volume for vessels making a given port, since the load factor—full loads when possible—is fundamental in economical shipping. Transshipment business offers a clear opportunity for an approach to the equalization of inward and outward cargo tonnage.

Doctor MacElwee, discussing the shipping advantages of free zones, has put the case as follows:

"The institution of the free port has its economic cornerstone in the load factor. The large ship is more economical than the small one. The trouble is to find a cargo for her. Also, the more ships come to port the better the service, the more animated the business of the port, the greater the possibility of filling the large and economical freight liner. This type of ship gives better service, sails oftener and faster, and generally stimulates business. On the other hand, few consumer communities absorb commodities in shipload lots. A family knows that it can buy veal cheaper per pound by buying a whole calf, but the average family can not use a whole calf. Certain countries may fill a ship with coffee, as Brazil, or with sugar, as Java or Cuba, or with steel rails or harvesters, as the United States, but few markets can absorb such shipments with regularity. The way to secure low freight rates and frequent express service overseas is to be able to unload lots at the warehouses of a great port, from which small short-haul feeder lines distribute the commodities to the secondary markets. In the past the United States has absorbed cargo lots within its own borders and has therefore had little reexport complications. However, in the future, with the smaller South American markets opened to the United States, it will be good business if many products now handled uneconomically in broken lots, if at all, be consigned to an American free port in cargo lots for feeder-line distribution to the smaller markets of Mexico and Central and South America. \* \* \* It will therefore be necessary after the war to develop the feeder-line system to an extent not known before."

Transshipment business has been a very large feature of the development of some of the world's greatest ports. A study of practically any inward vessel manifests covering cargo shipping on vessels from the chief European ports shows the extent to which transshipped cargo, originating in remote parts of the world, contributes to the making of cargo brought into our ports from Europe. The development of transshipment business has been characteristic of the trade of all the European countries which have built up large mercantile marines. It is remarkable in the trade moving through British ports, Hamburg, Bremen, Copenhagen, Rotterdam, Amsterdam, Antwerp, Le Havre, Bordeaux, Marseilles, and Genoa to enumerate but a few. The two chief German ports mentioned, Hamburg and Bremen, are the outstanding examples of the operation of free ports in connection with this transshipment trade. Bremen developed a cotton transshipment business of vast dimensions, and the transshipment trade of Hamburg in coffee and numerous other lines has been striking.

#### EXTENT OF TRANSSHIPMENT TRADE

The transshipment trade of the United States at present is by no means negligible, in spite of the limited development of the American mercantile marine and the inadequacy of American ports for the handling of such business. Govern-



ment statistics show reexports from the United States totalling over \$34,000,000 in 1911 and figures in excess of that amount for 1912, 1913, and 1914. In 1915, the figure went up to \$61,000,000; in 1916, it stood at the same level and in 1917 it rose to \$64,000,000, in 1918 to over \$100,000,000, in 1919 to \$171,000,000 and in 1920 it stood at \$148,000,000 in round numbers. The average for the 10-year period 1911-1920 was over \$75,000,000. Our statistics for "in transit" and transshipment over approximately the same period average \$228,000,000. Our reexports show a considerable variety of animal, vegetable, and mineral raw materials and foodstuffs.

The character of the "in transit" and "transshipment" trade can not be determined from official statistics, nor can the relative proportions of "transshipment" and "in transit" trade. "Transit" trade to and from Canada looms large in the total, yet for many other countries in all parts of the world a substantial three-cornered movement, with transshipment in the United States, is indicated. The figures for "reexports," or exports of foreign merchandise, are not included in the "in transit" and "transshipment" figures. The reexport figures are undoubtedly far below the total amounts of foreign merchandise actually reexported from the United States, much obviously foreign in origin appearing under the heading of domestic exports.

#### GEOGRAPHIC AND ECONOMIC SITUATION

Opponents of free zones in ports of the United States have argued that the geographical location of the United States is against the development of American ports in transshipment business. It is argued that the geographical location of the European ports, by reason of the existence of numerous different countries some without seaports, reasonably close to each other, lends itself to the breaking up of large shipments in the principal ports and to the subsequent distribution of merchandise in comparatively small quantities to the markets of the consuming countries. It is argued, on the other hand, that the comparative isolation of the United States from foreign countries is against the substantial growth of any such business in this country.

Another argument which has come out in the hearings, tied up with the geographical basis for trade, is to the effect that European countries which have free zones are countries which depend largely on foreign countries for materials for manufacture and in turn depend upon foreign countries for a market for the things which are manufactured. On the other hand, the United States is portrayed as producing the bulk of its materials for manufacturing at home, and distributing the bulk of its output at home. This argument is then tied up directly with the idea that it is the development of a manufacturing industry within a free port or free zone that is the important thing; that there is room for the development of this line in Europe; but, from the wide difference in our position, there is no geographical basis for such development here. As a matter of fact, in some of the European free ports there is no manufacturing—manufacturing is not allowed. Further, in the European free ports where manufacturing is allowed, it is only in a comparatively few lines, particularly lines having to do with ship's supplies, that manufacturing has developed on a scale of any special significance. Copenhagen has had a free port for 25 years and while its transshipment and consignment business and the manipulation of goods have grown to large dimensions, practically no manufacturing takes place in the free harbor.

#### COMMITTEE'S VIEW

In the opinion of this committee, there is slight force to the argument about the difference between geographical and economical conditions in Europe and in the United States, if the shipping connections of the ports of the United States with foreign countries are increased and diversified as it is the hope of American business men that they will be. To-day we get rubber, tin, wool, flax, burlap, vegetable oils, hides, and skins, and a wide variety of other products in transshipment from British and continental European ports. On the Pacific coast we bring in a considerable variety of merchandise that has formed transshipment cargo in Singapore, Manila, Hongkong, Shanghai, Kobe, Yokohama, and other oriental ports. If we had, or if we were going to have, no great, dependable, frequent shipping service to the West Indies and Latin America, to the Scandinavian countries and to other parts of the world with which, possibly, we have had inadequate shipping connections in the past, naturally the building up of a greatly increased transshipment business might be regarded as out of the question, and it might be admitted that there is no reason for the widening of our port

facilities to encourage a line of business that has grown up in Europe, where conditions are different.

To-day, however, we have a foreign trade sentiment in the United States and an economic position in the world which impel us toward the extension of our foreign trade. We have the material for the vast American mercantile marine, which will give us the shipping connections between various American ports and all the important ports of foreign countries. Our exporters and importers are determined that we are going to have this adequate ocean-shipping service, and are confident that we shall be able to work it out with our own merchant marine. It is stated that cargoes coming to the United States are overwhelmingly for domestic distribution. A study of our inward cargoes shows, as indicated, that we have been forced to go to great European entrepôt ports and get merchandise that has been transhipped in Europe from tropical and other remote points.

This committee feels that with the development of our foreign-trade banking system and our merchant marine connections with more foreign countries, American trade is bound to develop on new lines to meet changed conditions. We are already a creditor nation and shall undoubtedly be a source of capital for the further development of foreign countries. It is recognized that we must import more goods. Our shipping activities have increased much and will increase more. We are building up insurance facilities for foreign business, and it is undoubted that the United States will have a bigger position, a greater activity in practically all lines, of international business. This committee recognizes that certain geographical and economic conditions making for the growth of transshipment business in European ports do not exist here but, on the other hand, is convinced that from shipping, financing, and other service standpoints, and from a mercantile standpoint, the United States ports do possess good possibilities for bringing about greatly increased transshipment trade.

#### CONSIGNMENT MARKETS

Alongside transshipment trade, the other chief argument for the free port or free zone is its importance in building up a broad consignment market, that is a consignment market for import as well as for reexport. In the free ports of European countries having protective tariff systems, and in the ports of free-trade England, extensive consignment markets have grown up. Many grades of many commodities—raw materials and semimanufactured materials for use in manufacturing, as well as finished products—are shipped to the great entrepôt ports in quantities large enough to make for economical ocean shipment. There the manufacturers and merchants of the country and buyers from foreign countries go and buy for immediate delivery, in the quantities desired by each individual purchaser, grades of merchandise which are known from actual display. Auctions in consignment markets lead to advantageous purchasing. Grades and commodities found not to be suitable for the trade of the domestic market can be reexported without seriously hampering customs formalities.

In the United States we have a high protective tariff bearing on a wide range of raw materials and semimanufactured materials for further use in manufacturing. In 1920 the total dutiable imports of raw and semimanufactured materials including foodstuffs greatly exceeded \$1,000,000,000. On manufactured products, our manufacturers and merchants do not have the advantages of a consignment market. Our system of bonded warehouses has imposed certain handicaps on this class of business. The American manufacturer or merchant to-day has to negotiate at long range, often through foreign middlemen, for comparatively large quantities of dutiable merchandise. With free zones in the United States, where a broad consignment market could be built up, the American business men would have the advantages which European business men have, of negotiating in the ports of their home country for quick delivery of merchandise in amounts immediately desired and grades known by inspection. The American manufacturers would benefit by having stocks of dutiable supplies readily accessible and could buy in quantities as needed without tying up the large sums of money now tied up in carrying comparatively large stocks, by reason of the nonexistence of the facilities of a consignment market in the United States. As a diversified entrepôt and consignment business grows up in the United States it would direct to our markets a great many Latin American and other buyers from abroad, who now do their buying in the established consignment markets in European centers.

This committee believes that this matter of the facilities of free zones in giving the United States broad consignment markets for dutiable goods from abroad is a valid and forceful argument in favor of the establishment of free zones.

## BONDED WAREHOUSE AND DRAWBACK SYSTEMS

Some opponents of free zones dismiss the subject summarily as being unnecessary because we have a rather well-rounded-out bonded warehouse system, and a workable drawback system. There are some very important advantages, however, which free zones possess over any systems of bonded warehouses and drawbacks. One of the big advantages which all observers have pointed out in connection with the free zones of Europe is the cutting down of customs formalities in connection with vessels bringing in merchandise intended for possible transshipment. Vessels coming to the free ports are free from practically all customs formalities. They discharge and take on cargo, come in and go out, with the red tape of customs inspection practically eliminated. This advantage, which speeds up shipping turnaround and leads to distinct economies, has made a certain scattered appeal even in England, for although there are few customs duties in England and customs formalities on shipping have been reduced to a minimum to encourage shipping, each vessel's cargo is subject to full customs formalities in order adequately to protect the British revenue on such merchandise as is dutiable.

## DISADVANTAGES OF BONDED WAREHOUSES

Those who stand up for the bonded warehouse and drawback and oppose free zones point to the possibility of manufacturing in bonded warehouses in the United States. As a matter of fact, manufacturing does not thrive in bonded warehouses. The customs formalities, which our customs officials declare have been reduced to a minimum, exercise a hampering effect which can not be overcome. Too much emphasis has been laid, in discussing free ports and free zones, on the question of manufacturing. Manufacturing is not the big thing; transshipment and consignment trade are the strongest reasons for free zones. In the legislation proposed in recent sessions of Congress authorization for manufacturing is not carried, and in comparison with the other advantages conferred by a free zone, that omission, so far as most ports are concerned, might not prove serious. At the same time, the subject is of some importance and deserves consideration. Under our bonded warehouse system, as a general rule, articles fully manufactured in bond are not allowed to be brought into the domestic market. Cigars are a notable exception to the rule. For most products manufactured in bond, only the by-products—grain hulls, for example—may be brought into the domestic market.

The bonded warehouse may not be used for repacking or otherwise manipulating or processing general merchandise, except, when necessary to prevent deterioration of the merchandise. The display of merchandise for sale in bonded warehouses is not allowed. Opponents of the free-zone idea contend that the bonded warehouse regulations of the United States could be amended to get away from these existing disadvantages. There still remain decided disadvantages to the bonded warehouse, however. In bonded warehouses merchandise has to be entered, examined, assessed, and entry liquidated; credit is given against the warehouse entry as the merchandise is withdrawn and duty actually paid, in the case of imports coming out of the warehouse for consumption in the domestic market. Similarly, credits are given against the warehouse entry on goods re-exported from bonded warehouses. If merchandise is transferred from one bonded warehouse to another there are further customs formalities. The expenses in connection with customs storekeepers and especially the red tape in connection with the inspection, supervision and recording of bonded merchandise, its movements to and from bonded warehouses, all have a deadening effect. In addition, there is the expense of the bond for payment of double the amount of the duties.

## DIFFICULTIES IN USE OF DRAWBACK

In order to overcome the disadvantages of manufacturing in bonded warehouses, some of our export manufacturers who are dependent upon dutiable supplies from abroad use the drawback system. Customs duties on imported supplies are paid. When the export merchandise containing the imported dutiable supplies is exported from the United States the manufacturer can obtain a refund of the amount of duties paid, with the exception of a customs charge of 1 per cent. Whereas, in the case of bonded warehouses, the manufacturer has to pay only the amount of the bond for double the duties and the charges for customs storekeepers and other incidental charges, the manufacturer

relying on drawback suffers the loss of the interest on the amount of customs duties actually paid when the merchandise was brought in. In addition to the costs of this operation of drawback, there are again the burdens of customs red tape in properly identifying the merchandise, proving the amounts of dutiable imported materials covered in the export shipments, and other vexatious delays in getting the refund of drawback.

For the 10-year period 1911-1920 customs statistics showed an average of over \$99,500,000 of dutiable merchandise remaining in bonded warehouses at the end of each calendar year. Over approximately this same period, our customhouses paid out drawback on merchandise used in the manufacture of articles exported from the United States an average of close to \$8,500,000. These figures are some indication of the extent of the transactions carried on, even under our present system. It is admitted that even with the establishment of free zones there would still be a demand for the continuance of a drawback system and the continuance of certain bonded warehouses for the convenience of certain lines of trade. On the other hand, the free zone offers a stimulating freedom from numerous administrative requirements in connection with such industries and lines of trade as do possess peculiar adaptability for this type of trade.

## MANUFACTURING IN FREE ZONES

The subject of manufacturing in free ports or free zones, already referred to, gives rise to various lines of attack on the part of opponents of the free-zone system. One manufacturer, in testifying at a Government hearing, stated that he was opposed to free zones because they are primarily of benefit to commerce and not primarily of benefit to industry. It is stated that within the necessary limited area of free zones it is unthinkable that large-scale and greatly varied manufacturing industry can be built up. It is further stated that the history of Hamburg, the most notable of the European free ports in which manufacturing is permitted, shows that big manufacturing growth can not be expected in a free zone; it is the ship-repair industries, the ship-supply industries and a limited number of exclusively export industries that have prospered in the free zones; that the industrial development within the free zone is not comparable with that outside the free zone. There is an obvious disadvantage to manufacturing within a free zone any dutiable article for sale within the domestic market. The industry in the free zone must pay the customs duty on the finished product, whereas the manufacturer within the country outside the stockade of the free zone pays customs duty only on such dutiable materials as may be imported. The manufacturer within a free zone has, therefore, a real handicap in case he has to dispose of any of his output within the country. It has, however, been pointed out that the manufacturer within the free zone has distinct advantages over the manufacturer outside the free zone in the same country, so far as export trade is concerned.

There is no particular dispute as to the facts of most of these contentions. The members of this committee believe that the commerce of the United States should be encouraged, as well as the industry of the United States. It is believed that the United States generally will benefit by handling a large share of the world's business, getting the profits from shipping, warehousing, financing insuring, and rendering other services in connection with the transshipment trade. It is believed that the American manufacturer will benefit directly from the advantages of this transshipment business and the establishment of a broad consignment market through which he can get his needed dutiable supplies from abroad. It is admitted that no marvelous development of manufacturing industries in the free zones may be expected. It is felt that certain export industries, now conducted with difficulty in bonded manufacturing warehouses and with the aid of drawback, will be stimulated and built up if the facilities for conducting such industries in free zones are made available to American manufacturers. This committee sees no force to the argument that a manufacturer operating within a free zone will have an advantage over the manufacturer making goods for export outside the free-zone stockade. It is to be expected that the manufacturers who will manufacture within the free zone will be chiefly Americans. If an American manufacturer has a sufficient volume of business to justify the establishment of a factory working exclusively for export within a free zone and is thereby enabled to get more nearly on a parity with competing manufacturers in foreign countries, American industry will receive the benefit.



## FEASIBILITY OF FREE ZONES—SHIPPING STANDPOINT

The advantages of free zones to vessels operating in the transshipment trade have been discussed. Opponents of free zones have argued that since a large percentage of freight importations are of miscellaneous character and for general distribution primarily in the domestic market, ships carrying such cargo would, as a rule, dock at their regular terminals and any portion of the cargo intended for the free zone would have to be transported from such a terminal to the free zone. From a shipping standpoint, however, this committee sees no reason why it would not be feasible for any such cargo, intended for storing in the free zone or for transshipment through the free zone, to be lightered to the free zone as possible consignment cargo or transshipment cargo, with as little effort or expense as would be required for lighterage to any other point for transshipment or for transportation to bonded warehouses, in the case of merchandise which might eventually in part find its way into the domestic market, but which it is not desirable at the time of discharge from the vessel to put through the customs for immediate entry. We do, as a matter of fact, bring into our ports at present many whole cargoes of single commodities—oil, coffee, fruits, nitrates, sugar, sisal, copra, etc. As our shipping business and our shipping connections improve, it is reasonable to expect that we shall do more such business. This committee believes that our carrying trade in bulk commodities will increase and that the United States will depend less upon obtaining such commodities as a part of miscellaneous cargoes from the entrepôt ports of Europe, and will itself establish a larger transshipment market in American ports. In the opinion of this committee, free zones are feasible and desirable from a shipping standpoint, not only in view of the actual extent of single-commodity cargoes, but with regard to the economical handling through the free zones of such portions of miscellaneous cargoes as may be discharged from vessels completely discharging at terminals outside of the free zone.

## PORT ADMINISTRATION

In United States ports generally, there is an existing need for port and terminal facilities. The free-zone system lends itself to the building up of an adequate equipment of warehouses to meet the needs of a transshipment and consignment trade. Conversely, the prospects and growth of greater transshipment and consignment trade encourage the construction of better port and terminal facilities. Speedy lading and discharging of vessels are features of a successful transshipment trade.

The creation of a free zone presupposes the inclusion of an area large enough for the development of increased business in the way of new construction and in the adaptation of existing facilities for the trade of a free zone. By careful planning and construction, and the addition of improved port and terminal equipment, the coordination of the movement of merchandise through terminals to and from vessels and to and from railroads can be insured.

According to port authorities, the incorporation of an adequate free zone can be made with relatively little difficulty as an integral part of any general plan of port improvement in most of the ports of the United States. The free-zone idea is applicable to a small as well as to a large port; the free zones in many European ports operate with only a few acres of land.

## CUSTOMS ADMINISTRATION

American customs officials see no substantial administrative difficulties incidental to the creation and operation of free zones in connection with United States ports. Assuming that merchandise withdrawn from a free zone for domestic consumption would pay duty on a basis of its condition when passing the customs barrier going into the country, regardless of what may have happened to it within the free zone in the way of manufacturing, repacking, etc., the only new administrative question raised is, On what basis of fair market value shall ad valorem duties be levied? At present, imported merchandise pays duty on the basis of the foreign market value in the country of origin. It has been suggested that the basis of duties on merchandise moving into the United States through a free zone after processing might be the prevailing fair market value in the principal foreign countries from which similar merchandise customarily is imported. If "American valuation" should be adopted, the question no longer exists. United States customs officials have expressed the belief that this administrative question could easily and equitably be determined properly to conform

with whatever valuation system Congress may decide to adopt for the country, and adequately to safeguard the revenue of the United States and assure the full measure of tariff protection carried in the United States tariff for the benefit of American manufacturers.

Customs officials see no chances of increased smuggling, and statistics from countries where free zones exist give no reason to believe that free zones would lend themselves to smuggling or any other manner of evasion of the payment of full American customs duties. There is always some smuggling in American ports and on the Mexican and Canadian frontiers. On these frontiers we have only one customs man to each five miles. Experience abroad leads to the belief that it is actually harder to get merchandise out of a stockade than off the wharves.

Customs formalities would be simplified by having the merchandise withdrawn for domestic consumption passed through a central customs point at the barrier of the free zone instead of requiring the present burdensome individual customs attention to each ship on the arrival of vessels at the piers. The relative advantages from an administrative standpoint of free zones, compared to the bonded warehouse system have been considered by the Treasury Department and there seems, from a customs standpoint, no object in urging the use and development of bonded warehouses in preference to free zones. As a matter of fact, both on the customs formalities incidental to vessel arrivals and the customs formalities in connection with bonded warehouses, it is anticipated that the establishment of free zones would result in a decided reduction of the work of the customs service and a consequent saving in administrative expense.

## RELATION TO A PROTECTIVE TARIFF

The committee considers that the argument that a system of free ports or free zones diminishes protection of the domestic market by a tariff, or is the first step toward "free trade," is based on a false construction of the word "free." In reality, the free zone permits of the highest degree of protection of the domestic market, without sacrificing the development of the transshipment trade and of a wide consignment market. Addressing the Committee on Commerce of the United States Senate in October, 1918, Secretary of Commerce William C. Redfield said:

"There seems to be a lingering impression in the minds of some persons that a foreign-trade zone has something to do with free trade. I wish, therefore, to repeat here that a free zone, or a foreign-trade zone, is a normal accompaniment of a so-called 'protection policy.' There is no occasion for a foreign trade zone in a free-trade country. The tariff status quo of the United States is maintained in principle and in fact by the provision of bill S. 3170."

Likewise the argument has been made that free zones have a tendency to become dumping zones. Free zones do not alter customs rates or general customs tariff policy. The tariff affords adequate means for protecting, through regular customs duties and anti-dumping clauses, against dumping. Bonded warehouses are as open to any argument of lending themselves to dumping as would be free zones.

Another opponent of free zones has referred to them as "foreign islands in United States territory." Economic invasion of the United States through free zones has been referred to. They are not foreign islands, but domestic places where American shipowners, merchants, and middlemen may carry on a line of activities for the benefit of American business. The argument against free zones has been made that foreigners will reap the benefits; that foreign shipping companies will benefit from a share in the transshipment business; that foreign manufacturers and merchants will get business away from American manufacturers and merchants by having stocks available in the American ports. The committee would not favor any attempt to restrict the ordinary commercial use of established free zones in American ports to Americans, barring out foreigners. It is a matter of fact that the merchant vessels of a country use the ports of the home country more than they use foreign ports. The committee sees no reason to believe that Americans would not be the ones to develop the warehousing and transshipment and consignment trade in free zones of United States ports. Experience in free ports and free zones in foreign countries where no restrictions are placed on the nationality of persons and companies operating, gives no reason to believe that American free zones would fall under the domination of the citizens or subjects of foreign countries.

## LEGALITY

Some opponents of free zones in the United States have contended that the establishment of such zones would be unconstitutional in view of Article I, section 9, clause 6, of the Federal Constitution, which provides in part as follows: "No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another \* \* \*."

In the official hearings, considerable legal opinion bearing upon this point was introduced. From *Pennsylvania v. Wheeling and Belmont Bridge Co.* (18 How., 421, 433, 435), considered as a leading case on the construction of clause 6 in section 9 of Article I of the Constitution, the opinion of Mr. Justice Nelson is quoted as follows:

"It is a mistake to assume that Congress is forbidden to give a preference to a port in one State over a port in another. Such preference is given in every instance where it makes a port in one State a port of entry and refuses to make another port in another State a port of entry. No greater preference in one sense can be more directly given than in this way, and yet the power of Congress to give such preference has never been questioned. Nor can it be, without asserting that the moment Congress makes a port in one State a port of entry it is bound at the same time to make all other ports in all other States ports of entry."

The applicability of this line of reasoning to the authorization of the establishment of free zones in certain ports of the United States without thereby making it necessary to authorize the establishment of free zones in all ports of the United States, is convincing. Without further going into the law on Article I, section 9, clause 6, the committee is persuaded that the constitutionality of free zones in ports of the United States, so far as this clause is concerned, is not open to serious question.

## CONCLUSION

In conclusion, this committee of the Chamber of Commerce of the United States believes that permissive legislation should be passed authorizing the establishment by local bodies at their own expense, under approved Federal regulation, of free zones in the ports of the United States. It is believed that a free zone is a part of the equipment of a country for doing a diversified international trading business which American business men ought to have made available to them. It is believed that with free zones in American ports the American merchant marine will benefit from an increased share in the carrying trade of the world; that American merchants and manufacturers will benefit in a variety of ways from the advantages of a wide American consignment market for foreign products; that the free zones will bring needed improvements to American port and terminal facilities; that free zones will bring added business in American banks, insurance companies, freight forwarders and warehousemen; that free zones will bring about a vast improvement of the type of facilities provided at present only by bonded warehouses and drawback, together with a simplification and saving in the work of customs administration. The United States, with its new merchant marine, its expanded equipment for foreign banking, foreign merchandising and marine insurance, occupies a new place in the trade of the world. The establishment of free zones will be a step forward in improving our material equipment for building up our international trade.

The committee desires to express its appreciation of the hearty cooperation and advice of Dr. Roy S. MacElwee former Director of the Bureau of Foreign and Domestic Commerce, and of Mr. George W. Ashworth, of the division of customs, Treasury Department, in considering the various aspects of the subject of free zones in ports of the United States.

The members of the Committee: Messrs. Winston D. Adams, E. L. Bogart, William C. Breed, W. Irvin Bullard, Edwin J. Clapp, F. H. Farwell, J. D. Lowman, Austin McLanahan, Frank C. Munson, and George Ed. Smith.

In submitting this report it should be mentioned that Mr. Frank C. Munson, a member of the committee, did not concur in this report of the majority of the committee.

SPECIAL COMMITTEE ON FREE ZONES,  
By AUSTIN McLANAHAN, *Chairman*.

# STATEMENT OF EDWARD L. BACHER, MANAGER FOREIGN COMMERCE DEPARTMENT, UNITED STATES CHAMBER OF COMMERCE

Mr. BACHER. Mr. Chairman, I believe at the present time Cuban sugar can come in under drawback and under the manufacturing warehouse system, and a product manufactured from that can be exported, to that extent you have such a situation at the present time. Under the provisions of the bill that would be facilitated; and to the extent that you have that further facilitated you would get an advantage.

Mr. WATSON. If 125,000,000 pounds of sugar comes in from Cuba and no duty is paid, and it is processed and is imported, is not that a differential in favor of foreign sugar as against the domestic sugar?

Mr. BACHER. But you have that right in the bonded warehouse and drawback.

Mr. WATSON. But that sugar remains in this country, and you have to pay for it. I am talking about importing it with no duty.

Mr. BACHER. I am speaking about the exportation of sugar from bonded warehouses.

Mr. WATSON. I am asking you to answer my question yes or no, whether that is not a differential in favor of the Cuban sugar as against the sugar grown in America.

Mr. BACHER. Yes; it is a differential.

Mr. McCORMACK. In what way? The only differential I can see is that if this foreign sugar came into a free port for reexport, they would not have to pay the 1 per cent. The advantage they would get would be in not having to pay the one per cent.

Mr. BACHER. Or the interest.

Mr. McCORMACK. If foreign sugar came into this country and went to a refinery not located in a free port, and has a differential or 1 per cent, what further differential exists, if any?

Mr. BACHER. I think Mr. Watson is thinking in terms of the domestic sugar refined and exported in comparison with foreign sugar which is refined and exported. To that extent you are affecting domestic sugar. If you bring in foreign sugar, whether it is in a bonded warehouse or brought into a free port, to the extent that you have facilitated that operation I presume it would be an advantage in favor of foreign sugar.

Mr. VINSON. Would it be any added advantage?

Mr. BACHER. The only added advantage would be that you eliminate the 1 per cent, and you eliminate the interest charge on the duty paid, during the time the sugar is processing through drawback or the bonded warehouse.

Mr. VINSON. Might you not have an added amount of Cuban sugar under the proposed plan?

Mr. BACHER. That is quite possible, to the extent that you facilitate that operation.

I might say, however, that in the free port development in Europe, manufacturing has been a very minor part of that development, and our committee, in considering the question of manufacturing, in the report that has been submitted have definitely said they have no serious objection to omitting the manufacturing angle from the proposition. Most of the manufacturing in the free ports in Europe

has been manufacturing of ship's stores and other articles necessary to supply vessels. There has not been any great development of the manufacturing business in the free zones.

Mr. CROWTHER. Do you know how many types of bonded warehouses we have now? Do we have bonded manufacturing warehouses?

Mr. BACHER. We have bonded manufacturing warehouses and we have other warehouses in which a certain amount of rehandling is permitted, and other warehouses where goods are put in storage and held awaiting the eventual liquidation of duties.

Mr. WATSON. Under the present law we do have bonded manufacturing warehouses?

Mr. BACHER. Yes.

Mr. WATSON. Under the control of the Government?

Mr. BACHER. Yes.

Mr. WATSON. Then the Government is in business?

Mr. BACHER. That is supervision.

Mr. WATSON. They get imports of merchandise free of duty and can export it free of duty. They are in business against private industry, it seems to me.

Mr. CULLEN. To a certain extent. It is in the appraisers' stores.

Mr. BACHER. The purpose of putting merchandise in the appraisers' stores primarily is to determine its value. The purpose of putting it in the warehouse is to bring the merchandise in and await a more favorable market. The bonded warehouse protects the Government against the entry of that merchandise before duty is paid.

However, in those operations, you would probably want to bring in consignment merchandise and hold it until you could split it up for individual buyers and put it in international trade.

Mr. CULLEN. Or until it is withdrawn by exporters and importers as complete shipments.

Mr. BACHER. Our exporters export merchandise in shiploads, in large consignments possibly to Copenhagen let us say, and there it is held until it is split up to go to other ports in the adjacent area, and that same facility would be afforded here.

Mr. WATSON. Of course, the philosophy of drawbacks was to give employment, to import wheat from Canada and then process it and export it.

Mr. BACHER. But I say that you would also have additional employment under manufacturing within a free zone. You would still have provision of additional employment of American workers under a free zone, because the workers would come from protected customs territory to carry on that work.

Mr. McCORMACK. Have you given consideration to financing the free zones?

Mr. BACHER. No; we did not give that consideration in the committee.

Mr. McCORMACK. Do you think it should be limited in that respect?

Mr. BACHER. No; my own views are that there should be freedom in that respect. Of course, in the national chamber we are not very much in favor of any extension of the Government in business. There should be a limitation of government in business.

Mr. McCORMACK. Do you not think that business men, if they did that, would be better equipped to understand the advisability of having a free port within a port?

Mr. BACHER. I should think they would.

Mr. McCORMACK. Do you not think they would take more interest in it if they had their money invested, if they are interested enough to make a capital investment?

Mr. BACHER. My own views would be that you would probably get more of a business judgment upon a problem of that sort from business men who had to make a profit out of the undertaking. But to keep the charges from getting too high you would have to have some type of regulation.

Mr. McCORMACK. Of course, there would be governmental regulations to protect the Government and the people in general.

Mr. BACHER. Quite so.

Mr. VINSON. Have you given any consideration to section 2 of H. R. 4726?

Mr. BACHER. I am sorry I have not read those bills in great detail.

Mr. VINSON. Do I understand that you are indorsing the added rights conferred under section 2 to the rights given under the tariff act of 1930?

Mr. BACHER. We are indorsing free zones as facilitating the transshipment trade and the consignment trade.

Mr. VINSON. What would happen in the free zone you are advocating? How far would you go in the handling of the goods?

Mr. BACHER. Under the original resolution which was passed in 1920 by the membership of the National Chamber of Commerce it was provided that within those areas foreign materials might be received for manufacture, repacking, or other necessary handling and be distributed to foreign destinations.

Mr. VINSON. You went so far as to say they might be received for manufacture?

Mr. BACHER. That was the original resolution in 1920. This committee said they were not opposed to omitting the manufacturing angle. That was a special committee which, in 1921, made a restudy, and that committee stated they had no objection to omitting the manufacturing end.

Mr. VINSON. They would have no objection, but do they recommend the omission of it?

Mr. BACHER. No; they do not. They said that manufacturing is not an essential and major function of a free zone.

Mr. VINSON. It seems to me it would be quite an important proposition as to whether you would have it or not have it, and I was interested in the processes under which they changed their opinion in the 12 months.

Mr. BACHER. On page 16 of this pamphlet there is a discussion of manufacturing in free zones.

Mr. CROWTHER. There is a sentence on page 16 which says:

There is an obvious disadvantage to manufacturing within a free zone any dutiable article for sale within the domestic market.

Mr. VINSON. I wonder why they did favor a certain bill the year before and then changed their minds in connection with the bills we have under consideration.



We have a bill before us which we are concerned with which gives the right to take goods that come into the free zone and mix them with foreign or domestic merchandise. Do you, in your organization, indorse that handling?

Mr. BACHER. I may say we are not indorsing the specific provisions of the bills before the committee.

Mr. VINSON. I understand that; you hardly ever do.

I am asking you what you think as an expert. You are here as an expert. I am asking you what you think about giving that right, if we were to adopt this free zone bill, to permit the mixing of foreign goods with other foreign goods or domestic merchandise, and then permitting them to be exported without any revenue whatever coming into the Treasury of the United States.

Mr. BACHER. I would approve that, personally.

Mr. VINSON. Is that your personal recommendation, or is that the recommendation of your organization?

Mr. BACHER. No; that is my own personal recommendation. I think that is essential in building up transshipment trade. It is frequently necessary to mix products from different countries before shipping them out to other foreign countries.

Mr. VINSON. Can that be done to-day under the tariff law?

Mr. BACHER. I would have to ask one of the Treasury experts about that.

Mr. VINSON. You are not an expert on that?

Mr. BACHER. No; I am bowing to the superior knowledge of the Treasury Department on that subject.

Mr. VINSON. You have never heard of that being done under the present law, have you?

Mr. BACHER. No.

Mr. VINSON. If it is being done, what power under this act permits it?

Mr. BACHER. I would not know under what power that would be permitted.

Mr. CROWTHER. In relation to the questions asked by Mr. McCormack I notice in the conclusion of their report which was written in 1921 and revised in 1926, they say:

In conclusion, this committee of the Chamber of Commerce of the United States believes that permissive legislation should be passed authorizing the establishment by local bodies at their own expense, under approved Federal regulation, of free zones in the ports of the United States.

What does that refer to when it says "local bodies"? Does that mean private enterprise?

Mr. BACHER. Presumably it means primarily by private enterprise.

Mr. CROWTHER. It could mean both.

Mr. BACHER. I think it might mean both.

Mr. VINSON. It is all-inclusive.

Mr. CULLEN. We will now hear Mr. Hedden, representing the Port of New York Authority.

#### STATEMENT OF WALTER P. HEDDEN, REPRESENTING THE PORT OF NEW YORK AUTHORITY, NEW YORK, N. Y.

Mr. HEDDEN. Mr. Chairman, the Port of New York Authority is, as has already been stated by Congressman Cullen, an agency of the States of New York and New Jersey, and charged with the

development of port facilities, and one of our duties is to have an eye out for anything which will encourage the trade and commerce of the port. I am here because our board has adopted a resolution indorsing the foreign trade zone idea.

I want to speak very briefly as to the advantages we see to United States commerce and trade from such a proposition. In the first place, I want to impress upon you gentlemen the seriousness of the present situation with respect to our export business, upon which the port and terminal facilities of the United States and the shipping of the United States depend at present.

I can illustrate that no better than by stating to you, that since 1929, in five principal exports from the port of New York alone, there has been a decline of \$635,000,000, including agricultural implements and automobiles, and in some of the foremost parts of our export trade we have fallen off from 80 to 90 per cent in three years.

What does this mean? We have in the port of New York a billion dollars worth of port and terminal investments. We have labor there to the number of twenty or thirty thousand men engaged in stevedoring. We have on ships going from and coming into the port 50,000 seamen. We have engaged in the employ of the railroads serving the port of New York, 500,000 employees, and to the extent that this foreign trade falls off and our terminal facilities and shipping are not used we have an increase in unemployment, with less use of our facilities, meaning that they will go backward and into bankruptcy and not be able to handle our commerce when times get better.

Why are we interested in foreign-trade zones? It is simply this. We want to maintain and enhance the amount of trade between foreign countries which can be brought into the United States ports by obtaining a greater opportunity to sort, pack, manipulate, and refine the merchandise in transit.

Mr. CULLEN. Have you the figures in regard to exportations from the Port of New York within the last two years?

Mr. HEDDEN. Yes; I happen to have a comparison between 1929 and 1932.

Mr. CULLEN. Have you also any figures giving a comparison in regard to the decrease of tonnage, in so far as it relates to ships engaged solely in export and import trade?

Mr. HEDDEN. Yes, we have the figures showing the falling off in the amount of registered tonnage of those vessels.

Mr. CULLEN. I wish that information would be put in the record, because I think it is very important.

Mr. HEDDEN. There was a falling off between 1929 and 1932 of \$635,000,000 in five leading exports alone.

Mr. VINSON. If some one should read in the record some time in the future your statement in reference to manipulating and refining they might not know what you mean. Will you tell us what you mean by refining and manipulating?

Mr. HEDDEN. We have to-day in the tariff provisions an arrangement whereby smelters, for example, can be bonded to refine ores that come to us from foreign countries, and the refined product is then reexported. In those bonded smelters today you can carry on the business of refining in transit, and that is the kind of thing which you would permit in the free port, or the foreign-trade zone, under this act.

Mr. VINSON. You have that authority under the tariff act of 1930?

Mr. HEDDEN. That is right.

Mr. VINSON. Is there any liberalization or any increased advantage in respect to refining in this bill that you do not have in that act?

Mr. HEDDEN. To this extent, that to get the privilege of refining to-day you have to post bond and get permission. If the refinery was located in the port, you could do it there without posting bonds or requiring detailed supervision.

Mr. VINSON. Would you expect to have your smelting works within your free port?

Mr. HEDDEN. To the extent that their principal business was reexport business they would naturally gravitate toward such a free port.

Mr. VINSON. What do you mean by manipulation?

Mr. HEDDEN. In the handling of furs, for example, it is necessary to take the furs from Canada and from Russia and from other countries, to take them out of the original package and make up a new consignment, and send them in balanced lots to some other countries.

Mr. VINSON. You have that power now under the 1930 tariff act, have you not?

Mr. HEDDEN. It is restricted by the same regulations as to supervision and bonding. If it were in the free port it could be done without any of that detailed supervision.

Mr. VINSON. As to the authority for the mixing of foreign and domestic merchandise, I do not think that is in the tariff act.

Mr. HEDDEN. I do not recall anything specific in that act.

Mr. VINSON. What I wanted to know was this: Wherein is there an advantage in the power of granting in either the Welch bill or the Celler bill different from that which is granted in the tariff act of 1930, always of course having in mind the matter of executing bonds that would be required under the tariff act?

Mr. HEDDEN. I think, in the main, everything that is in the bill introduced by Congressman Celler is a function that is now performed in a limited sphere in bonded warehouse or bonded manipulating warehouses.

We have 80 bonded warehouses in the port of New York, scattered all around the port, and it requires 1,400 bonded truckmen and lighters to move those products back and forth. The idea is to concentrate in a specific zone as far as it is economical to concentrate this business.

Mr. VINSON. I turn to our tariff authority, the gentleman from New York, Mr. Crowther, and ask him if there is any right or power provided in the act of 1930 that would permit the mixing of foreign goods with foreign goods or domestic merchandise, for the purpose of exportation that would not have the advantage of the drawback?

Mr. CROWTHER. I do not know of any such language that I can find. The only provision is in regard to manipulation and that is much more modified than this proposition.

Mr. WATSON. If this bill is passed as it is written, with the word "assembled" written in the bill, that makes it possible to import every piece of article that might go into the merchandise and assemble it here and then export it without any duty being paid whatever.

Probably it would not be practicable, but it is possible, is it not?

Mr. HEDDEN. The assembling would be permitted within the free port for reexport.

Mr. WATSON. And you would export that assembled product and the Government does not get a sou of duty on it. That is possible, is it not?

Mr. HEDDEN. Yes, sir.

Mr. VINSON. I think if you take certain foreign articles and certain domestic articles you can assemble them for export without duty.

Mr. WATSON. Take watches, for example. Of course, it would not be practicable to import the pieces of the works of a watch and put them together and export them without the Government receiving a cent of duty. It might not be practicable, but it is possible.

Mr. HEDDEN. That is business which we do not now enjoy, and I think it would be a splendid idea to give employment to American workmen in assembling watches to be sold in Africa or South America.

Mr. WATSON. But where do you get those pieces of the works, or parts from originally? It is the foreign workman who makes them.

Mr. HEDDEN. The point is that the assembly business which would gravitate to these free ports is the stuff now going direct between foreign countries. We would enhance our ability to attract a certain amount of what would otherwise be direct business between these other countries.

Mr. WATSON. But who makes the pieces that are imported to this country? They are made by foreign labor.

Mr. HEDDEN. That is true, but we would assemble them, and we would be doing something that we are not doing now. We would get at least the assembly of those parts.

Mr. VINSON. What assembly business would you go out after if this bill should become law?

Mr. HEDDEN. I should think the assembly business would be primarily of raw products, such as furs, or supplies which could be brought here and taken out of the original packages and made up into lots for export to the buyer in a third country, we will say.

Mr. CULLEN. And you think that would give a lot of employment to people who are now unemployed?

Mr. HEDDEN. It would give some employment.

I do not want to exaggerate the importance of it, but anything that would give some employment would be a help. I can not tell you what it would be, but the present business where they have free ports in Europe, is often very large.

I should like to file with the committee a map which shows the foreign trade zones in existence in the world to-day, and it is rather striking in that it shows how Europe, and to some extent Asia, are dotted with them. There are 36 listed on this particular map, and I think there are four others that we have not been able to put on the map.

Mr. VINSON. In that connection could you, without too much difficulty, give us a statement of the rights and powers and authorities that are permitted in the free ports in foreign countries?

Mr. HEDDEN. It is very hard to summarize them because the conditions differ somewhat. In Hamburg, which is the largest, they handled some years ago some 22,000,000 tons of cargo, or more than all of the Atlantic ports except New York, and coming within 2,500,000 tons of what New York handled. In Hamburg they permit manu-

facturing, but I understand it is a minor part of the free port activities. The principal business is transshipment.

In certain other free zones in Europe they do not permit manufacture, but permit the landing and storage of the product, and the transshipment of it to another vessel. I am not familiar with all the details, but to some extent they allow mixing, blending, and things of that character.

Mr. McCORMACK. The main benefit would be in the transshipment, as I understand it.

Mr. HEDDEN. That is correct. I do not have to show you a map to show that the United States occupies a favorable geographic position in the Western Hemisphere as to the transshipment business and the intermediate business in shipping, storing, and manipulating in transit between South America, Central America, the West Indies, Canada, and the Eastern Hemisphere. You can see what the real commercial possibilities for this country are.

I have here a letter which I received as late as November 7, 1932, which is illustrative of what I have in mind. This letter was written by a large English manufacturer of wire and hemp rope, and he writes and says:

We are meditating sending quite a large portion of the traffic we have for both North and South America, for transshipment at New York, and it occurs to us that perhaps you, like some of our English ports, issue booklets which advertise the outgoing sailing.

We are particularly impressed by the fact that quicker deliveries can be given by shipping from Liverpool via New York to various South American points and the West Indian Islands.

Now, I should like to present a second map.

Mr. McCORMACK. Who wrote that letter?

Mr. HEDDEN. I would prefer not to quote the man's name. I have before me a map published by the United States Shipping Board as of January 1, 1931, which shows the American-flag services connected with all parts of the world, and I would like to file that with the committee to show that the United States is the center of a network of steamship services not only to the Eastern Hemisphere but to South America, on a triangular move to the West Indies. That illustrates how advantageously we are situated.

Mr. VINSON. What advantage would it be for vessels going to a free zone? Could they get away quicker?

Mr. HEDDEN. The Shipping Board, which has gone into this very thoroughly, makes the estimate that the saving for a freight vessel would be as high as \$500 to \$1,000 per trip if they could dock at a free port, and in the case of a combination freight-and-passenger ship, although I doubt that they would go to a small free port, that saving would be higher.

Mr. VINSON. There are not so many of those?

Mr. HEDDEN. The majority would be freighters, and for them there would be a saving of from \$500 to \$1,000 a trip, if they could get away quicker.

Mr. CULLEN. Of course, that is a very important factor in the matter of the dispatching of vessels.

Mr. HEDDEN. It is very important.

I would like to add one other thing to supplement what I said about the advantageous geographic position we are in, and the web of steamship services.

We have at the port of New York, and I imagine that is true at other ports, an arrangement whereby the lines plying between our port and South America, the West Indies and Central America have a rate from those countries via New York to Europe which is no higher than the direct rate maintained by the shipping which moves between South America and Europe.

In other words, they meet the direct rate on the combination via the United States ports, and moreover, they give the importer of cocoa beans or hides or coffee a chance to ship a large lot into an American port, with the option of saying how much he wants to bring into the United States and how much he wants to throw on another vessel into Europe. This option gives him the ability to maintain a flexible movement of his commodities via United States ports. So we have such an advantage now, from a geographical standpoint, in moving the transshipping business through United States ports but liberalizing the customs formality and procedure would make it still more advantageous.

Mr. WATSON. What is the rate on iron from India to the United States?

Mr. HEDDEN. I can not answer that offhand.

Mr. WATSON. I thought that might have been brought to your attention.

Mr. CULLEN. Most of these vessels engaged in freight business are under the jurisdiction of the Shipping Board, are they not, or are they lines leased to private owners?

Mr. HEDDEN. The Shipping Board has been rapidly getting out of the operating end of the business and placing it under private operators. You will find, I think, that most of the American flag lines are privately operated to-day.

Mr. CULLEN. Without the Shipping Board holding any further jurisdiction over them?

Mr. HEDDEN. They have jurisdiction over rates, and so forth, but they do not actually operate.

I would like to make one other point.

I want to bring to your attention one illustration that shows the possible value to our commerce of the free ports.

We do, as you probably know, a very large in-transit trade, as they call it, in Canadian wheat moving across the United States from Buffalo to the port of New York, the port of Boston, the port of Philadelphia, and all the way down to Norfolk. It amounts to a considerable tonnage and has a large revenue-producing value to the United States carriers, port facilities, and ships. We estimate that even under depression conditions of to-day it is worth \$16,000,000 in revenue per annum to American carriers and terminal facilities.

The wheat moves in bond from Buffalo to New York, we will say. In 1929 the collector of customs at the port of New York addressed a communication to the railroad companies having terminals there, calling attention to certain regulations which had been promulgated at Washington by the Customs Bureau, under the discretionary powers vested in the bureau, to the effect that all Canadian grain moving under the T and E rule must go out of the country in 90 days or into bonded warehouses, and there was not a bonded warehouse anywhere in the port of New York where you could put any such quantity of grain except the State elevator, which was full and



overflowing. There were 5,000,000,000 bushels of Canadian grain which would have had to be dumped on the market in 90 days.

Mr. CULLEN. You mean to-day there are no warehouses around the port of New York where grain could be stored?

Mr. HEDDEN. Not for bulk grain. You could not put bulk grain into one of those ordinary warehouses. We had some elevators, but most of them were full. The grain was in cars and barges at railroad terminals.

Mr. CULLEN. It was not many years ago that we had large warehouses where we put bulk grain into the bins.

Mr. HEDDEN. Fortunately, by conference among groups representing the port, the grain interests, the carriers, the officials of the Treasury Department and the Commerce Department, we were able to get a liberalization of that order so that the grain was permitted to stay there for a year instead of 90 days. However, I remember on that occasion a statement by a Government official here in Washington was made to this effect: if that grain had been in a free port, your troubles and our troubles would have been solved because we would not have bothered whether the grain went out in 90 days, under our regulations, or a year. We would be protected; we would know it would not come into the United States for domestic consumption, and we could leave it there as long as the market required it to be there.

That is one experience I have had of the difficulties in trying to work up transshipment business under regulations established principally from the standpoint of protecting the domestic market.

If we could get some of these ships outside the customs jurisdiction of the United States where the only thing the customs has to worry about is that nothing comes through that barrier for domestic consumption, and where you can leave it to do anything you want to in the interest of developing the trade and commerce of the United States and giving employment to terminal facilities and our stevedores and all those that participate in that business, it would mean a great advantage to us.

Mr. McCORMACK. The jurisdiction for determining where free ports would be, comes under the Secretary of Commerce, does it not?

Mr. HEDDEN. That is correct.

Mr. McCORMACK. He might determine that one city should have a free zone and another city should not have a free zone, on the Atlantic coast or on the Pacific coast.

Have you any views to express as to vesting such extraordinary power in the Secretary of Commerce?

Mr. HEDDEN. I would have every confidence that he would look at it from the standpoint of the enhancement of the trade of the United States.

Mr. McCORMACK. I am not questioning his interest, but I realize that he would be a human being, just like everybody else.

Mr. HEDDEN. We would have no objections. If I may quote you an analogy in determining whether a channel be improved in the United States, you vest in the first instance in the Secretary of War and his chief of engineers the determination of whether it is proper that that channel be improved. We are perfectly willing to have the Secretary of Commerce do the same for free ports.

Mr. McCORMACK. That is a power merely to recommend. Congress has the final voice in those matters. Do you not think that in every port where the business men are sufficiently interested to invest their capital in such an enterprise, they ought to be permitted to establish a free port, if they so desire?

Mr. HEDDEN. If I may break your question in two—

Mr. McCORMACK. You may break it any way you please. I am seeking information.

Mr. HEDDEN. Let me reply first to what you have asked the others more directly, perhaps, and which you may ask me next. As to this business of whether a public corporation or a private corporation should be vested with the right—

Mr. McCORMACK (interposing). A quasi-public corporation.

Mr. HEDDEN. Quasi public, yes. I have simply this to say, that from two standpoints it seems desirable that the bill should remain as it reads here, "public corporations." Those standpoints are these: First of all, you must vest in your foreign-trade zone constructor and operator, certain police powers. He must maintain customs guards, paid by him, if you will; but it has to be organized and run on a quasi-public or public establishment.

Mr. McCORMACK. Do you agree that a quasi-public establishment would be all right?

Mr. HEDDEN. "Quasi" is a term which means something different to a great many people.

Mr. McCORMACK. It is a private corporation subject to public regulations.

Mr. HEDDEN. We would prefer to have it as stated here, a public corporation, because of the police power angle of it and because the whole articulation and working out of port facilities these days is done much better under a public authority, one that can negotiate for railroad connections, for highway systems, with the State authorities and all of the other phases that tie into the successful creation of a port.

Mr. McCORMACK. Of course, if it is private capital subject to public regulation, in turn they would have to be subject to the local port authorities. There would be a certain jurisdiction by the local port authorities, such as the city of Boston or the city of New York or your own port authority, if it were given permission to establish and maintain a free port. You are not a public corporation; you are a private business organization, just the same despite the fact that its operations might be conducted by a public body. You are subject to all the laws to which an individual private citizen may be subject to.

Mr. HEDDEN. I am sorry that we do not have the time to go into detail as to how the port authority is set up. We are a public corporation. We operate on private capital.

Mr. McCORMACK. Who guarantees the bonds that might be issued; the State of New York?

Mr. HEDDEN. No. They are issued under the Port Authority's own faith and credit.

Mr. McCORMACK. What guaranty is behind the issuance of the bonds by the port authority?

Mr. HEDDEN. The sound knowledge that the revenues from tolls and leases, and so forth, will meet the interest and the principal.

Mr. McCORMACK. If there is any deficit, where does it come from?

Mr. HEDDEN. There is absolutely no commitment on the part of the States that they will take care of deficits. We can not pledge their credit. At the same time the experience has been that we have been able always to meet our obligations and in fact go far above being able to meet our obligations. So that question is academic so far as our organization is concerned.

Mr. McCORMACK. But assuming there were a deficit—

Mr. HEDDEN. Unless the State should by specific act step into the picture, you would have the same situation as you have with reference to a public utility security.

Mr. McCORMACK. Is the city of New York obligated in any way?

Mr. HEDDEN. No, it is not.

Mr. McCORMACK. Or any of the governmental bodies?

Mr. HEDDEN. No, sir. In other words, we are working with private capital. We would go out and raise the money, not by taxation or by pledging the credit of the States, but by the issuance of bonds.

Mr. McCORMACK. Under this bill the port authority or your organization could not create a free port?

Mr. HEDDEN. Yes, we could.

Mr. CELLER. The port authority was created by an act of the State Legislature.

Mr. HEDDEN. We were created by the State Legislatures, through their acts, and we are a public corporation. We have no stockholders. Our directors are appointed by the governors.

Mr. McCORMACK. You are not financed in any way from any public source?

Mr. HEDDEN. No.

Mr. McCORMACK. Then for all practical purposes, you are just the same as a private corporation?

Mr. HEDDEN. From the financial angle, yes.

Mr. McCORMACK. Well for all practical purposes. Now, why should you prevent a body of men in Boston or Norfolk or any other city from organizing to accomplish the same objective?

Mr. HEDDEN. We do not want to prevent anybody from organizing. The point, however, is we are in a different class from a private corporation in that our assets are all held in trust for either our bondholders or the two States. We do not look to profit from our operations. We have no directors who are appointed by stockholders. It is a public corporation.

Mr. McCORMACK. But you are subject to the same laws to which any private corporation is subject?

Mr. HEDDEN. We are subject to the act which created us.

Mr. McCORMACK. I mean with reference to torts. Suppose one of your agents injures somebody negligently; you have a corporate body responsibility just the same as any private corporation?

Mr. HEDDEN. I am sorry; I should be glad to have you discuss that matter with our counsel, but I think he would tell you that we are in the same status—we are an instrumentality of the State and enjoy the same privileges as the States that created us.

Mr. McCORMACK. I am not criticizing your body. I want to compliment you upon the statement you have made. But I do not see where you are in the same capacity as the municipality. A municipality has certain functions which it must perform and other functions which it assumes. But where they go into a private field,

they are responsible, just the same as any private individual or private corporation or quasi-public corporation is responsible.

Mr. HEDDEN. In all of our activity, we are governed by the statute charter which was given us by the two States and approved by Congress.

Mr. McCORMACK. That determines the limit of your authority?

Mr. HEDDEN. That is right.

Mr. McCORMACK. Your principal purpose is the establishment of a free port?

Mr. HEDDEN. Yes, in so far as this hearing is concerned.

Mr. McCORMACK. With reference to the proposition whether Congress should confine this to public bodies, or broaden the principle so that not only public bodies but any body of public-spirited citizens with sufficient capital may participate, you have no strenuous objection to that?

Mr. HEDDEN. Oh, no. I am simply giving you my own views but our desire is to see some enabling legislation passed. None of us can go forward with any of these propositions unless the act provides that somebody in Washington may hear the application and grant the permit on the proper conditions.

Mr. McCORMACK. Your objective is to get this principle established. Then if there are any mistakes or any abuses arising out of it, they can be corrected by later legislation. In other words, the experience in the conduct of a free port might disclose such conditions which might require later consideration, but they are incidental to the main objective, the establishment of free port itself, or the authority to establish a free port.

Mr. HEDDEN. Absolutely. That is the history of all progress, I think.

Mr. McCORMACK. I generally agree with you in that respect.

Mr. WATSON. In order to obtain permission to establish a free port, do you not have to appeal to the Secretary of the Treasury and the Secretary of Commerce?

Let me ask you this: Which would you prefer, the Secretary of the Treasury or the Secretary of Commerce to appeal to for permission to establish a free port?

Mr. HEDDEN. That is a rather embarrassing question for me to answer. We like the bill as it now reads. If you prefer to substitute the Secretary of the Treasury for the Secretary of Commerce, that is an administrative detail, as we look upon it.

Mr. WATSON. How about leaving it to both the Secretary of the Treasury and the Secretary of Commerce?

Mr. HEDDEN. As I understand it, there is a right of appeal given to a board consisting of the Secretary of War, Secretary of Commerce, and the Secretary of the Treasury. They all participate.

Mr. WATSON. But that is only on the matter of an appeal.

Mr. HEDDEN. Correct.

Mr. WATSON. I am asking whether you think permission to grant this permit ought to be in the Secretary of Commerce or the Secretary of the Treasury, or both.

Mr. HEDDEN. We feel it should be vested in one head.

Mr. WATSON. Instead of two?



Mr. HEDDEN. In the first instance; and then you have an appeal board on which all of the departments that are interested are represented.

Mr. CULLEN. Your thought is that there should not be any division of responsibility.

Mr. HEDDEN. It would be very difficult to do business with two heads of two different departments.

Mr. WATSON. Because of the customs side of the question, I thought probably the Secretary of the Treasury might be the more natural choice.

Mr. HEDDEN. As I understand it, the Secretary of the Treasury would prescribe all the rules and regulations relating to the protection of the customs, and the Secretary of Commerce would simply authorize and endorse, so to speak, the application; see that it was a qualified and responsible agency that was going to establish the zone.

Mr. WATSON. Then you would make the application to the Secretary of Commerce?

Mr. HEDDEN. Under this act, yes.

Mr. CROWTHER. Mr. Chairman, I should like to ask one or two questions.

Just what do you want to establish that is not established now? We have bonded warehouses; we have bonded warehouses both for storage and manipulation, and we have bonded warehouses for manufacturing. The Treasury may determine upon a building for that purpose.

Are they objecting to the bond they have to put up? Do they object to the supervision of a customs official in the process of manufacturing? Or is it your point that you want all of it done in a circumscribed area?

Do you want to establish a circumscribed area with docks and railroad facilities, and so forth, and have private industry put up suitable buildings for that purpose?

Do you contemplate one of the buildings shall be for display purposes, to display foreign merchandise? That has been suggested in connection with these neutral zones, one building being devoted to the display of foreign merchandise; not raw materials particularly, but largely manufactured merchandise.

Just what do you want to do that you can not do now? Materials are brought in here and manufactured, and can be manufactured under the present law. The buildings or parts of buildings and other inclosures may be designated by the Secretary of the Treasury as bonded warehouses for the storage of imported merchandise, and so forth, or for the manufacture of merchandise in bond or for the storing, repacking, and so forth.

It seems to me there is a pretty liberal provision now made for that

Now, what is it you can not do now that you want to do? Or are there some things you want to get rid of that are in the present system?

Mr. HEDDEN. I think you have stated it in the course of your question in this way, that to-day there are privileges for designating certain warehouses, certain smelters, and so forth, for the doing of this business; but experience has shown in ports abroad—and it is only common sense to believe that the same would be true here—that the problem of supervision and the problem of movement and the problem of loading and unloading and shipping would be simplified

and cheapened, made less expensive, if we could establish a zone instead of having, as we do to-day in New York, 80 scattered warehouses, 1,400 bonded trucks and lighters to do the interchange between these warehouses and ships, and the necessity for each ship coming into the port to go through the formality, and each importer and trader to go through the formality required, even though the cargo and consignment is immediately or within two or three months, going out of the country again, to some other destination.

In other words, what we are aiming at is economy in port organization; economy in supervision from customs angle, the development as the result of those economies of a trade which we do not now enjoy to its fullest, namely the transshipment business between two other countries, and holding on to that trade which we have managed to get, such as this Canadian grain which I have been talking about.

Mr. CROWTHER. Then your plan is, as I take it, to establish a very considerable area devoted to this activity at some place where there are docking privileges or docking opportunities and there are railroad opportunities available, if not directly, by barge transmission, and as near as possible aiding all the activities which you say are scattered in various places now, in one territory. Is that the idea? For instance, I understand Staten Island is one place where they are going to establish or want to establish a free port.

Mr. HEDDEN. In the last 10 years I have heard seven or eight places mentioned as possibilities, but I prefer not to discuss the particular locality. Suppose the bill you have before you were passed. Our organization and all the others in similar positions in the country could then sit down and consider the questions, how big and where and what type of facilities are needed?

Now, it is academic for us to talk about that at this time. We could not go out and interest people in taking facilities. We could not talk to steamship companies. They would say to us, "You are not permitted to do this. Why are you talking about free zones?"

Mr. WATSON. Can you put into the record a statement of the number of men employed in the free port of Copenhagen and the amount of tonnage handled there?

Mr. HEDDEN. Copenhagen?

Mr. WATSON. Yes. That is one of the largest free ports.

Mr. HEDDEN. I do not remember the figures, but they are in the report of the Shipping Board which I should be glad to file in the record, if you desire.

Mr. WATSON. Will you include those figures in your statement?

Mr. HEDDEN. I should be glad to do that. May I be permitted to file a short written document with the committee inclosing that information?

Mr. CULLEN. Without objection, that permission is granted.

I want to thank you, Mr. Hedden, for the statement you have made. It has given the committee some real information concerning the purpose of this bill. We are very much obliged to you.

The reference to Staten Island, which has been mentioned, I should like to clear up the situation. Of course, there are other places around New York which would be just as available. It is a fact, however, that Staten Island has tremendous docks and terminals, and it has been prominent because of that.

(Mr. Hedden later submitted the following additional statement.)

In accordance with the permission granted me at the hearing on the foreign trade zone bills, I am filing this supplemental information herewith for incorporation into the record.

*Statistics of foreign trade and shipping at the port of New York*

Year	Value	Tonnage
1929.....	\$1,903,095,000	9,738,000
1930.....	1,384,419,000	7,581,000
1931.....	868,700,000	5,968,000
1932.....	<sup>1</sup> 477,923,000	<sup>2</sup> 4,416,000

<sup>1</sup> December estimated.

<sup>2</sup> 6 months estimated.

The above figures on value are obtained from the United States Department of Commerce, and on tonnage from the United States Shipping Board. The 1932 figures are estimates made by the port authority, based upon the official figures for such months as were available as of January 1, 1933.

The statistics covering five leading exports, 1932 compared to 1929, are as follows:

	Calendar years		Net change	
	1932	1929	Amount	Per cent
Agricultural machinery and implements.....	\$6,690,922	\$81,639,473	-\$47,948,551	-91.8
Refined copper and manufactures.....	12,903,921	97,810,241	-84,906,320	-86.8
Industrial machinery.....	39,667,609	168,182,514	-128,515,205	-76.5
Automobiles and parts.....	48,748,146	364,758,449	-316,010,303	-86.7
Meat products.....	10,514,306	41,818,640	-31,304,334	-76.0
Total 5 leading exports via Port of New York.....			-635,684,713	

The comparative statistics of vessel movements in foreign trade are as follows:

Year	Vessel entrances		Vessel clearances	
	Number	Net registered tonnage	Number	Net registered tonnage
1929.....	6,928	30,490,353	7,035	30,806,834
1930.....	6,662	31,151,383	6,779	31,347,263
1931.....	5,925	29,416,261	6,139	29,942,076
1932.....	5,139	26,768,367	5,275	27,002,945

The above statistics are obtained from the United States customs record and include vessels entering or clearing via other United States ports from and to foreign countries as well as direct entrances and clearances.

**FUNCTIONS PERMITTED IN FREE PORTS OF EUROPE**

The functions permitted in European free ports are summarized on pages 25 to 31 of the United States Shipping Board's report of 1929. The following quotations illustrate activities permitted at typical free ports.

"Stockholm: The freeport at Stockholm is used mainly as a port for the transshipment and reconsignment of merchandise. Goods may be unpacked, divided, and repacked in larger or smaller parcels, and they may be inspected by the consignee or persons authorized by him. More liberal free storage time is allowed for goods intended for reexport than for other goods. Manufacturing activities are permitted only when sanctioned by the King. All retail trade within the free zone is prohibited" (p. 26).

"Almeria (Spain): The following operations are permitted in the free port of Almeria: Repacking of merchandise in different containers; division of goods for the preparation of commercial grades; mixture of goods, with the same object; hulling and toasting of coffee and cacao; working of hides and skins; grinding of wood; washing of wool; extraction of oil from copra and from oleaginous seeds; all operations which, without essentially changing the character of goods, increase their value; importation of crude petroleum products and coal for supplying vessels, after making any necessary divisions and mixtures."

In summing up the Shipping Board report it says, on page 57, "All European countries appear to have recognized that the essential function of the free port is to facilitate transshipment and reconsignment trade, and that manufacturing, when permitted, is a secondary purpose. The operations which are essential to the success of a free zone are those which are necessary to receive, store, and sort goods, and to prepare and repack them for distribution to various markets. The demands of various markets as to kind and grade, or quantity of commodities differ, as do also their requirements as to packing."

**TRADE AND EMPLOYMENT IN FOREIGN TRADE ZONES**

The United States Shipping Board report discussing the free port of Copenhagen, Denmark, states that it covers 128 acres of land and 82.5 acres of water and has 40 warehouses and 2 grain elevators. Approximately 100 private concerns employing 600 people have leased ground and erected their own buildings. The port is estimated to have handled, as of 1926, about 100,000 metric tons.

No figures are available as to the total number of employees engaged in port operations. With respect to manufacturing, the Shipping Board states that as of 1913 there were 19 firms employing 502 people engaged in various types of manufacturing. The report states that the above list includes only firms which alter the character of the merchandise. Setting up machinery, mixing, sorting, etc., are not included, and the success of these particular port industries is dependent upon the free port. The business is in addition to what Copenhagen would otherwise have (p. 63).

The Shipping Board report gives more complete statistics with respect to the free port at Hamburg, Germany. This port covers 1,500 acres of land and 1,840 acres of water, and contains 86 State built quay sheds or transit warehouses having a length, end on end, of 11 miles. Fifty-eight of these quay sheds are operated by the State and 28 leased to private organizations. The State-operated quay sheds, or transit warehouses, alone give employment to 800 clerical employees and between 4,000 and 6,000 workmen. There are nearly 2,000 cranes and hoists employed in handling freight at the free port.

The manufacturing in the free port of Hamburg as of 1928 was in the hands of 151 industries employing 25,363 employees.

The Shipping Board's report sums up the importance of the free port to Hamburg as follows:

"The part played by Hamburg's free harbor in properly handling and encouraging its enormous overseas trade can not be overestimated. The free harbor, with its extensive storage accommodations, its low warehousing costs and handling charges, its facilities for repacking, refinishing or actually manufacturing in the free port, constitutes the very center of Hamburg's commercial life, and Hamburg's position as the leading port of northern Europe is inextricably bound up with the free port. It is impossible to disassociate Hamburg from the free port, even in one's mind, as historically and commercially they are one. Should the free port be abolished, an unthinkable step, Hamburg would no longer be able to maintain its position as a world factor in the various commodity markets, such as rice, jute, crude rubber, cocoa beans, hides and skins, and so forth." (p. 195).

Very truly yours,

W. P. HEDDEN,  
Chief, Bureau of Commerce,  
The Port of New York Authority.

Mr. CULLEN. Congressman Brunner wishes to make a very short statement to the committee. Mr. Brunner, we should be glad to hear you at this time.

**STATEMENT OF HON. WILLIAM F. BRUNNER, REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF NEW YORK**

Mr. BRUNNER. Mr. Chairman and gentlemen of the committee, I want to express my sentiments in favor of this legislation, having in mind the millions of dollars that the Government has spent in Jamaica Bay and millions that the city has spent in docking facilities there, and having in mind that it may be designated as one of the free ports established under this legislation.

Mr. CULLEN. We are much obliged to you, Mr. Brunner.

The next witness is Mr. Frank S. Davis, manager Maritime Association, Boston Chamber of Commerce.

**STATEMENT OF FRANK S. DAVIS, MANAGER MARITIME ASSO-  
CIATION, BOSTON CHAMBER OF COMMERCE, BOSTON, MASS.**

Mr. DAVIS. Mr. Chairman, my name is Frank S. Davis, and I am manager of the Maritime Association of the Boston Chamber of Commerce. I appear here on behalf of that organization; also on behalf of the Boston Port Authority, of which I am a member.

The Boston Port Authority is an unpaid commission of 5 members, 3 being appointed by the mayor of Boston, and 2 by the Governor of Massachusetts.

Mr. CULLEN. Mr. Davis, may I interrupt you long enough to ask, is the Port Authority of Boston regulated by any board of Massachusetts, or is it a local organization?

Mr. DAVIS. It is under the State law.

Mr. CULLEN. Along the lines of the New York Port Authority?

Mr. DAVIS. No. It has a limited authority and it functions largely as an investigating and advisory body. Authority is somewhat comparable with that of the New York Port Authority, as vested in the department of public works of the State.

This Boston Port Authority is about 3 years old. The purpose of the organization was to investigate just such matters as you have here under discussion and to make a report and recommendation.

Mr. McCORMACK. They have no power to issue bonds?

Mr. DAVIS. None whatever.

Mr. McCORMACK. It is an advisory public body?

Mr. DAVIS. That is right; largely advisory. It may initiate and carry on investigations of rates before regulatory bodies. They may institute such investigations and they may participate in them. But largely, as you have said, it is an advisory body with limited authority.

The Maritime Association is an organization of about 200 members, including leading banks and financial institutions, some of the principal manufacturers in New England, and practically all of the shipping concerns of New England; exporters and importers and many of the business houses.

May I digress for just a moment to mention that Mr. Henry I. Harriman, whose statement you may have heard here this morning, and who is president of the United States Chamber of Commerce, is one of the leading citizens of Boston and has been president of the Associated Industries of Massachusetts, an organization of some 1,100 manufacturers in Massachusetts.

We have appeared here, Mr. Chairman and gentlemen of the committee, at various times on free port legislation since 1913. It reminds me somewhat of Mark Twain's remark about the weather. I want to thank you for the opportunity to appear here to-day and to speak again in support of the pending legislation. It would enable the business interests of the country to do what they would like to do and what they have said they want to do at every hearing in which I have had the pleasure of participating.

I can think of not one commercial or business organization in this country that has not at some time or other put itself on record as favoring the enactment of this enabling legislation. We in Boston—I have to refer to Boston, Mr. Chairman, to illustrate my point, because that is the port with which I am most familiar, more familiar than with some of the others—

Mr. VINSON (interposing). It is a good port, is it not?

Mr. DAVIS. It used to be a good port and it would be again if this legislation is passed.

Mr. McCORMACK. If you pass this kind of a bill and left it to the discretion of some individual in Washington whether or not a free port should be established in Boston, you may never have a free port in Boston; and I am thinking of my experience with differentials in that connection.

Mr. DAVIS. That is what put it on the blink, as you know.

Mr. McCORMACK. And it might put this on the blink if you would have one individual in Washington to say that this port shall be established here, but not there.

Mr. DAVIS. I thoroughly agree with you. We have a very unbalanced situation.

I want to speak along three lines, gentlemen. One is the value of this from a port angle; the second, the value from a shipping angle; and the third from the standpoint of true economy. There are several kinds of economy. It seems to me as a business man it is not always true economy to cut appropriations and cut salaries and all that sort of thing. Sometimes when you can make an investment of a few hundred dollars and have a profit of thousands, that is pretty wise economy.

The Government has expended on the port of Boston and its channels and navigation facilities, using that still as an illustration, something like thirteen or fourteen million dollars in all time. It is a natural seaport. It is only 6 miles from the open ocean.

The State of Massachusetts has invested in the port of Boston \$23,000,000 in channels and water-front facilities.

It is one striking instance of local cooperation, far exceeding anything asked of the Government in the way of improving facilities of the port.

Now, due to the artificial barriers that Congressman McCormack has mentioned, the rates we have been contesting before the Interstate Commerce Commission and others, differential treatment to other ports and localities, the commerce of the port of Boston has become very unbalanced. We have foreign imports of something like two and one-half million tons a year and our foreign exports have dwindled from 1,000,000 tons a year to 260,000 tons a year. It is a very unbalanced situation.



Now, how does that affect shipping? We have some very fine lines that have established trade routes; I am referring to the American merchant marine and the routes established by the Shipping Board. Formerly, when we had a balanced situation as between exports and imports, exports being about the same as imports, these ships could come in with their cargoes and they could get an outbound load for the same boat. If you will investigate the situation as it is now, if you will require the Shipping Board to make a report to you on that situation, you will find that it is necessary for Shipping Board steamers to come into Boston, which is a very good inbound port, and then have to coast all along the seaboard, New York, Baltimore, Philadelphia, and elsewhere to pick up sufficient cargo to get an outbound load. That is all exceedingly expensive in the operation of ships.

The Shipping Board report on foreign trade zones is a very comprehensive document. Now we up in Massachusetts have gone pretty far in this thing. We have hoped at various times in the past decade that legislation that would enable the local authorities or private interests at these local ports to go ahead and establish free ports and try them out, would be passed, and the State of Massachusetts went to the expense in December, 1925, based on the authority of a resolve passed by the legislature (we know it as our general court), requiring the Department of Public Works to make an investigation, report and recommendation, and there it is—a document of 44 pages [exhibiting]. It is "Massachusetts Senate No. 30, December, 1925. Report of the department of public works relative to establishment of a free port within the port of Boston." It goes into the subject very exhaustively. They mention the fact that at that time there were 17 manipulating warehouses in the Boston district.

Mr. CULLEN. Mr. Davis, something has developed—I have not heard the question asked to-day—and what is your opinion about smuggling, theft, and the substitution of goods? Could that be possible in a free zone?

Mr. DAVIS. I think it would be less possible; because, as has been suggested very helpfully by Mr. Hedden, the preceding witness, that a free port, or foreign-trade zone, could be policed better than is now possible in these different bonded warehouses.

Mr. CULLEN. That is your opinion?

Mr. DAVIS. Yes, sir; because the present warehouses are so scattered and because it would be a much more simple matter to police such an area.

Mr. CULLEN. In other words, it would be confined to this area?

Mr. DAVIS. Yes, sir.

Mr. CULLEN. And would be policed in order to protect the Government and the merchants themselves?

Mr. DAVIS. Yes, sir; and such policing would be a very simple matter.

Mr. McCORMACK. Do not you think, Mr. Davis, if there is any real demand for the free port and the transshipment business justifies it, that the business men would be interested and willing to invest?

Mr. DAVIS. They are, Mr. Congressman. I do not know but what present conditions might make them hesitate a bit, but they are ready. As you well know, there is a group down in Quincy Bay ready to go ahead, and there is also a group interested in Squantum,

in Dorchester Bay, ready to go ahead, and they are awaiting this legislation—private interests.

Mr. McCORMACK. Unless you do that, every port along both coasts is going to demand that the State or city make the capital investment without regard to whether the business justifies it, or not? In other words, there will be a hysteria and repetition of a lot of capital investments much like some of them made prior to 1929, where they should not have been made, and the local taxpayers are now burdened not only with the interest on the capital investment, but the operating expenses of the so-called public improvement which really should not have been made?

Mr. DAVIS. I think that is absolutely sound and I think, further, unless private interests have faith enough, in what they are coming here and proposing to you gentlemen, to put their money in it and carry it through, provided you give them the authority, they should not have the privilege. It is up to them, but it is good business. In Boston they say that the best site for a free port there is what is known as the Boston Army base. That is the biggest overseas pier on the Atlantic seaboard. It is a war terminal erected by the Government at a cost of twenty-four or twenty-five million dollars. If you will examine the Shipping Board reports, you will see they get a modest return from that investment of \$24,000,000. That is an ideal location for a free port. Then we have, as the Congressman well knows, at Squantum, in Dorchester Bay, what is known as the Victory plant, in the control of the Navy—a war industry established by the Government for the purpose of building destroyers, that cost something like \$14,000,000. The Government is getting no commensurate return on these tremendous facilities. This enabling legislation would immediately make the facilities exceedingly attractive, for they are outstanding opportunities for an enterprise of this kind. That is economy in my way of thinking.

I thank you, Mr. Chairman.

Mr. CULLEN. Is the Government availing itself of those facilities you are speaking about in Boston, or are they lying idle?

Mr. DAVIS. No, sir; a part of the Boston Army base is leased to private interests. It was originally under the control of the War Department, and the War Department turned a portion of it, the wharves and piers, over to the Shipping Board, and the Shipping Board has leased that portion to private interests. Another part of it is used as the headquarters of the First Army Corps Area, and there is a tremendous warehouse included in that part of the property that is still in the direct control of the War Department. When the *Leviathan* is docked right along side of it, in the biggest drydock in this hemisphere, the dock, the *Leviathan*, and the whole business looks like a pigmy along side of that warehouse.

Mr. CULLEN. Yes; I was down there.

Mr. DAVIS. It is a tremendous facility.

Mr. CULLEN. Do not the ships under private ownership or leased by the Shipping Board use those docks for their business there, like the American Republic Line and the American Export Line?

Mr. DAVIS. The Republic Line does.

Mr. CULLEN. The American Republic Line goes into the port of Boston?

Mr. DAVIS. The American Republic Line does use it; yes, sir.



Mr. CULLEN. Do not they use those facilities there that are practically owned by the Government?

Mr. DAVIS. The American Republic Line does; yes, sir.

Mr. WATSON. Would you favor the Federal Government going into zone operation?

Mr. DAVIS. No, sir.

Mr. WATSON. Correct.

Mr. DAVIS. I would favor it to this extent: I would certainly favor the enactment of enabling legislation that would permit the utilization of that Government property as a foreign-trade zone and thereby make it more attractive to any prospective lessee.

Mr. WATSON. But you would not favor Federal appropriations to sustain the zone?

Mr. DAVIS. I would not. I do not favor any appropriation by the Government—

Mr. McCORMACK. If I understand you correctly, if the public-spirited citizens of Boston interested in foreign trade were permitted to cooperate, for example, then if they could make a satisfactory arrangement for the lease of that area there and pay a rental for it, that is what you had in mind, I assume?

Mr. DAVIS. That is exactly it.

Mr. McCORMACK. But so far as the Government itself doing it, why you would oppose that?

Mr. DAVIS. Yes. And if they had this privilege of utilizing that for a foreign-trade zone, it would immediately make that property far more attractive to any private group.

Mr. McCORMACK. If you had private business men whose business was affected, interested in a zone of this character, is it not natural to assume they are more concerned about its success than if they are simply lessees of some public body?

Mr. DAVIS. Why, of course it is; yes, sir.

Mr. McCORMACK. Suppose the city of Boston established a zone there, that would probably require a capital investment of twenty to thirty million dollars in the buying up of land along the water front in East Boston, or South Boston, or Boston proper, or, if you go further down to Squantum, the purchasing of land there along the Dorchester water front, Dorchester Bay; with the dredging, and so forth, it would require a capital investment of many, many millions of dollars?

Mr. DAVIS. Yes, sir.

Mr. McCORMACK. And if the city of Boston were to do that and any one of those steamship companies were to make a 5 or 10 year lease and found it was not paying, at the end of their lease they would not renew the lease and the capital investment would fall right back on the taxpayers?

Mr. DAVIS. Yes, sir.

Mr. WATSON. Do you think the free zone would be self-sustaining?

Mr. DAVIS. I do. I think, sir, that it is worth a trial. We have been talking about it for 20 years, without trying it out, and why fear trying it out? What harm can it do? If it is a good business, suppose it did succeed, would it not be a good thing; would it not be a first-rate thing to put some of the unemployed who are walking the streets of Boston to work? We are raising \$5,000,000 for a welfare fund right now; and it is getting to be tremendously burdensome. How

much better it would be if those men could be put to work right on the water front, and some are high type of men.

Mr. WATSON. Anything that would aid in this depression, I would be in accord.

Mr. DAVIS. We need it. I just want to allude to one more thing—our merchant marine. I do not think we realize what splendid men we are bringing out of it. Why, on the 27th day of this month, Governor Ely, Mayor Curley, and other prominent men, particularly Gyles C. Stedman, of Boston, are joining in a public testimonial to a young American captain, a 35-year-old sea captain, who, by his skill and courage, saved 22 survivors of the British steamship *Exeter City* in mid-Atlantic last January.

Why, they beat all the world—these young American seamen—and they are the men who would be our mainstay in case of war. Let us do something for them. The Shipping Board tells you that a free port would help the American merchant marine, and that is a fine thing. Why Canada, gentlemen, is putting it all over us. Canada is getting onions from the West Indies into Halifax and sending them back to Boston. Think of that! We are talking; let us try it out. That is all we want in Boston. I will dig the capital up and we won't call on the Government for a penny of help, or the State either. There are public-spirited men there ready to go to the bat on this thing.

(The subcommittee thereupon took a recess until 2.30 o'clock, p. m.)

#### AFTER RECESS

The subcommittee reconvened pursuant to the taking of the recess, Hon. Thomas H. Cullen, presiding.

Mr. CULLEN. The first witness this afternoon is Mr. Petersen. Kindly give your name and address to the stenographer.

#### STATEMENT OF WALTER J. PETERSEN, WASHINGTON, D. C., REPRESENTING THE PACIFIC AMERICAN STEAMSHIP ASSOCIATION AND THE SHIPOWNERS' ASSOCIATION OF THE PACIFIC COAST, AT SAN FRANCISCO

Mr. PETERSEN. Walter J. Petersen; representing the Pacific American Steamship Association and the Shipowners' Association of the Pacific Coast, at San Francisco.

Mr. CULLEN. Proceed, Mr. Petersen.

Mr. PETERSEN. I just have a very brief statement, Mr. Chairman. We have no objections to the bills; we are in favor of them, or bills of this character.

Mr. CULLEN. You are in favor of the bills?

Mr. PETERSEN. Yes, sir.

Mr. CULLEN. Either one of them?

Mr. PETERSEN. Either one of them. It is in the principle of the bills we are interested. We think there should be some reservation in the bill for the protection of our coastwise trade and we are proposing an amendment to the bill, so far as we are interested.

In relation to the proposed bills—H. R. 4726 and H. R. 9206, by Representative Welch, of California, and Representative Celler, of

New York, respectively—the Pacific American Steamship Association and the Shipowners' Association of the Pacific coast state as follows:

We approve the bill to provide foreign-trade zones. At the present time the customs and tariff laws of the United States have no provision for the establishment of free ports, and no State or community may enter into the operation of a free port or a free zone. It is considered that if the proposed bills were enacted into law, it would simplify the process of entry and clearance by equalizing inbound and outbound traffic, thus tending to lower the export rate on maritime goods by facilitating dealings in foreign products, by increasing certain manufacturing, by removing the present time restrictions of the bonding privileges, in providing space for exhibiting foreign goods and samples so that the American merchant may be enabled to examine his imports before acceptance, in lowering the cost of insurance, and guarding of goods, in enhancing the value of warehouse certificates from the standpoint of duties because of greater police and fire protection than now exists; and for many other reasons a free port would tend to increase and expand the business of any port where it was established.

As long as the coastwise trade is effectively guarded, we believe that the suggested law, as laid down in these bills, would be of benefit to the American merchant marine and, so as to adequately protect the coastwise laws of the United States, we suggest the following amendment—

This is to be inserted on page 4, after line 25—

Mr. CULLEN. Of which bill?

Mr. PETERSEN. Of the Celler bill, page 4, at line 25, after the word "Treasury"—

*Provided, however,* That nothing in this act shall be construed in any manner so as to permit vessels under foreign flags to carry goods or merchandise from one foreign trade zone to another zone or port in the protected coastwise trade of the United States.

If that proviso is inserted, Mr. Chairman, we shall be very glad to support the bill. I think that is all I have to say about it.

Mr. CULLEN. Are there any questions?

Mr. CROWTHER. I just want to know how it will interfere. What is your amendment designed to do and what is the interference that you suggest to cure by the amendment? Give us a concrete example, for instance.

Mr. PETERSEN. Suppose there were a free-trade zone established in the city of New York and another one in the city of San Francisco, and supposing, for instance, an attempt might be made to transport the goods in the free-trade zone of New York in foreign vessels to the free-trade zone of San Francisco: That would be a distinctly coastwise transit, and to prevent foreign flags from engaging in that trade is the reason why we propose the amendment. We believe there is nothing we should do that would in any way invade our coastwise laws.

Mr. CROWTHER. I see; you want to see that no foreign ships carry goods from one free port to another, in simple language?

Mr. PETERSEN. Yes, sir.

Mr. CULLEN. Within the United States?

Mr. PETERSEN. Within the United States.

Mr. CROWTHER. How about our possessions?

Mr. PETERSEN. Yes, sir. Of course, we should protect our possessions also; outside of that, we would have nothing to do. That is the only reason we have for appearing here, practically, to see that our coastwise laws are protected.

Mr. CULLEN. All right; I thank you. At this point, I want to announce to the committee, for the record, that I hold telegrams here from the president of the Staten Island Chamber of Commerce, L. W.

Kaufmann, in favor of the bill; another one from William J. Russell, president of the Queensboro Chamber of Commerce, in favor of the bill, and a letter from Mr. James S. Graham, of Graham-Slater Co. (Inc.), in favor of the bill.

Now we will hear from Mr. Edwin Lord, of the Chamber of Commerce of Jersey City. Give for the record the capacity in which you appear.

# STATEMENT OF EDWIN B. LORD, EXECUTIVE VICE PRESIDENT, JERSEY CITY CHAMBER OF COMMERCE

Mr. LORD. Edwin B. Lord; executive vice president, Jersey City Chamber of Commerce.

Mr. Chairman, our conclusions have been reached as a result of a somewhat extensive study of the problem by a committee known as our marine terminal committee. This study was presented to our board of directors, and their recommendations were unanimously approved. The recommendations are that we approve, in principle, both the Celler bill and the Welch bill. We have no objections to insert at this time and, as a basis of our study, may I submit a brief which includes, Mr. Chairman, an indorsement of a general plan by the mayor of Jersey City.

Mr. CULLEN. You have that permission.

(The brief above referred to is as follows:)

The subject of legislation making possible the establishment of free ports or free zones has engaged the attention of the Jersey City Chamber of Commerce. In response to a communication to Hon. Frank Hague, mayor of Jersey City, in which we asked the mayor's opinions we received the following reply:

OFFICE OF THE MAYOR,  
Jersey City, N. J.

Mr. EDWIN B. LORD,  
Executive Vice President Jersey City Chamber of Commerce,  
Jersey City, N. J.

DEAR SIR: I am in receipt of your letter of the 13th instant, in which you state that the matter of establishing a free port or free zone in this country is coming to the front so rapidly that it appears to you that Jersey City should immediately take active steps to present its claims for the establishment of such a free port or free zone in this city. I heartily agree with the chamber of commerce that Jersey City should be in the foreground in any action which may be taken in proposed project.

The establishment of a free port or free zone within the port of New York district has been periodically suggested and advocated during the past 30 years or more. Bills were introduced in Congress from time to time to permit the creation of such zones or areas in American ports but no action resulted, chiefly, it appears to me, because of lack of public interest in the question. Its importance did not seem to be apparent.

The recent suggestion of Dr. Nicholas Murray Butler, that a free port be established in New York Harbor has brought this matter again to the fore and very general interest has been created in the metropolitan area and beyond in the proposed project. This apparent interest in a new presentation of the old plan is undoubtedly due to the necessity widely apparent to the ocean carriers, railroads, and the industries at large that business must be stimulated in the ports of the country, including New York. In order to accomplish this every effort must be made to reduce the operating costs in American ports so that additional business may be attracted to them, which means more ships entering and leaving, more railroad transportation, more manufactures, more employment.

Free ports or free zones have long been proposed as a benefit to American commerce because the facilities and advantages provided by their operation should result in increasing the volume of merchandise carried in American ships as well as attract foreign bottoms to such economically operated zones.

The results of an investigation of the subject made by the United States Shipping Board in 1928 can be summarized as follows: "The free port encourages diversity of shipping service. It attracts vessels from the smaller countries and from countries producing mainly raw materials, in order to bring these commodities together in a common market place for further distribution. The feeder lines likewise give the service necessary to place exports in these countries. Advantages to the exporter are therefore not confined to the opportunity to supply all the goods which the foreign buyer demands, but they include the encouragement of facilities and service for reaching these markets on a favorable basis."

The general business conditions in New York Harbor have been such that it seems to me more economic operation of the port is imperative. The geographic location of the port, the bulk of the ships located in the east side of the Hudson and New York Bay, while the railroads and highways to the interior are located on the westerly or continental side of the Hudson, make such economic operation a difficult problem.

The location within the port, on the continental side of the Hudson of a free port or free zone, it seems to me would go far to bring about the reduction of port operation cost and toward a general solution of the port problem as it was presented in the lighterage controversy.

Such a free zone or free port must necessarily be completely articulated with a railroad service. This, it is clear, can best be accomplished on the New Jersey side of the Hudson on the Hudson River, as well as in that great industrial area, the Hackensack and Passaic Valleys and Newark Bay. In this latter location can be provided amplest facilities for rapid discharge and loading of vessels directly to and from all the trunk lines. Ample cheap land is available for development of industrial or manufacturing plants of every description.

A second free zone or free port area can be established at the mouth of the Hudson on the Jersey City waterfront. A plan could be worked out here whereby the ocean liners of the largest dimension could dock, directly discharging their cargoes into an adjacent free zone area containing warehouses, manufacturing buildings, etc., or to its local consignee or to the railroad track extending upon the pier itself.

Such a plan would serve all classes of vessel or business entering the harbor. This plan would materially reduce cost of discharge or loading and time, which also is money. Cost of construction of facilities being less here than in New York City should result in lower pier or wharfage rentals, an item of no small consideration to steamship companies, especially in these times. In short, economy in port operation must be brought about. It seems to me that the establishment of a free port or free zones on the continental, the New Jersey side of the harbor is a goal toward which New Jersey should lend its aid.

The bringing about or realization of such a project requires first of all, action by Congress to permit the establishment of free areas in United States ports. Section 9 of Article I of the Federal Constitution states or declares that, "No preference shall be given by a regulation of commerce or revenue to the ports of one State over those of another." Bills have been introduced in Congress, notably in the past session to overcome this condition, so far without result.

Since it is fundamental that congressional action is necessary before the project of the establishment of a free port or free zone in New York Harbor can be realized, the presentation of the subject matter to Members of Congress by the Jersey City Chamber of Commerce will materially aid to safeguard the interests of Jersey City in the project by presenting the advantages of the location of such a free port in Jersey City on the continental side of the Hudson, resulting in reduction of cost of operation, saving of time, and consequently increase in American ocean trade, manufacture, railroad traffic, and general employment.

I fully agree that the chamber of commerce should make every effort to bring about necessary congressional action along these lines, and assure the chamber that in such effort it will be supported by the city administration to the fullest extent.

Very respectfully,

FRANK HAGUE, Mayor.

Our understanding of a free port or free zone such as we maintain should be established, is a district in or adjacent to a port, within which the customs authorities do not enter, but confine their activities to guarding its boundaries and imposing the usual formalities and charges upon all goods which leave it for the interior. It is designed to counteract the restrictive effects of customs super-

vision and at the same time retain all the protective and revenue producing features of the tariff system. It should consist of a district equipped with wharves, warehouses, industrial locations, and all sorts of mechanical devices for the economical handling and transportation of merchandise.

It is a district which all ships, irrespective of flag or cargo, may enter and depart from unmolested, and where all sorts of activity in commerce and industry, including sorting, refining, grading, mixing, assembling, and selling may be carried on without customs charges, supervision, or formalities. The territory set aside as a free port or free zone is intended to be a great market and the center for the transshipment trade of the region.

#### MOST IMPORTANT EFFECT OF A FREE PORT

By far the most beneficial and far-reaching effect of a free port or a free zone is on transshipment trade, because this is the trade which is hampered most by customs restrictions and supervision. Commodities entering transshipment trade are frequently shipped in large quantities and at a narrow margin of profit; and for this reason are especially benefited by any advantage which decreases costs, even if only to a slight degree. In a free port or a free zone merchandise may be unloaded from the inbound ship, placed in warehouses, and reshipped at a future date without any customs formalities whatsoever, thus eliminating the cost and annoyance of the formalities connected with storing goods in a bonded warehouse. Transshipment trade is also carried on in a manner which differs considerably from ordinary trade. More and more it becomes the custom to sell commodities while they are still on the water, or to consign them to some port of the region of destination for sale and final distribution after arrival. This practice requires a large central port with adequate storage space, transfer facilities for the speedy handling of goods in transshipment, opportunity for unrestricted division and consolidation of shipments, a large market in which to sell, and efficient and far-reaching transportation system for distributing merchandise to ultimate destination after it has been sold. A free port or free zone with its great freedom from customs supervisions specialized storage facilities, steamship connections with all parts of the world and its low charges, offers an especially strong inducement for transshipment trade to center there.

#### TRANSSHIPMENT PRODUCTS

The so-called colonial products such as rice, coffee, cocoa, sugar, cotton, wool, rubber, and mahogany are fundamentally transshipment trade products. In other words, a free port of the world's trade in this type of product is not carried on direct from ports in producing regions to those of ultimate consumption; and during the shipment of such products cargoes are frequently divided, consolidated and consigned. Furthermore the shipment and sale of such commodities are peculiarly benefited by the facilities of a free port or a free zone. Owing to the scarcity of labor, capital, and cheap machinery in most of the countries which are sources of these products and also because they can usually be shipped more economically in a crude state or in bulk, they are compelled to seek those centers where they can most cheaply be sorted, cleaned, refined, graded, mixed, and repacked. For such operations a free port or a free zone is excellently adapted, and therefore has immense advantages over the ordinary transshipment center.

A great center for merchandise is a powerful trade magnet and in producing such a center a free port or a free zone is very instrumental in increasing the commerce of a port as a whole. A large and active free port or free zone clearing house for the world's merchandise guarantees full cargoes to all vessels entering it, and at the same time offers a market to which vessels can bring cargo as ballast, which is certain to be sold at profitable prices. For this reason a free port or a free zone promotes direct steamship service with ports hitherto reached only by transshipment service because of the difficulty of obtaining full cargoes for vessels bound to those ports, as well as the difficulty of disposing of parts of cargoes brought from them.

A free port or a free zone attracts ships on account of the absence of many of the usual formalities and the charges and delays connected therewith. For instance, in the port of New York at the present time a preliminary permit must be obtained before a ship can dock and discharge its cargo, otherwise 24 hours must ensue from the time of obtaining the permit to the time of discharging the cargo. A 6-months bond for \$50,000 has to be filed with the customs authorities and this entails some formality in addition to the cost of the bond, although



preliminary permits are almost always taken out by steamship lines and by most steamship agents in advance of the arrival of the vessel, nevertheless in some cases the captain obtains his preliminary or regular permit after arrival, and this incurs delay. In speaking on this subject, officials of steamship lines entering the free ports of Hamburg and Bremen have stated that the dispatch with which a vessel can enter and clear the German free ports is of distinct value to shipping lines.

#### EFFECT OF A FREE PORT ON IMPORT AND EXPORT TRADE

To some extent the direct import trade of the port is facilitated by the free port or a free zone on account of lack of customs formalities and regulations. For instance, in the Port of New York, if the importer has been delayed 48 hours in obtaining the necessary papers for getting his goods through customs, the merchandise is sent to bonded warehouses. This necessitates the formalities and cost of getting this merchandise out of the bonded warehouses before it can be shipped to the interior.

Indirectly a free port or free zone, if it is successful, in creating transshipment trade or promoting the import trade, will tend to bring more vessels to the port. This, in turn, creates additional cargo-carrying space, which is the reason why exporters will seek that port.

It is claimed that a free port or free zone is of direct benefit to the industries in the region tributary to the port, because of the great raw material market which it creates. This raw material market gives the manufacturer the advantage of a nearby source of supplies which may be obtained more easily, more quickly, and more cheaply than if the market did not exist.

Furthermore, the raw material created by a free port or a free zone has peculiar advantages because refining, grading, mixing, and similar privilege make possible the purchase of almost any grade or type material desired. The ordinary manufacturer, buying in a small or far-distant market, is often at the disadvantage of being compelled to purchase material in inconvenient quantities, of unsuitable grades, long in advance of consumption, and without the opportunity of personal inspection. As a result, such a purchaser finds it a serious problem to purchase economically just what he needs and when he needs it.

If raw materials are purchased at a free port or free zone for future use the payment of customs duties may be deferred by storage in the free port warehouses, more economically and satisfactorily than in bonded warehouses.

The experience of European free ports has shown that the creation of industry in a free port is a minor result of its operation.

Nevertheless, a free port or free zone location offers great advantages to manufacturers producing chiefly for the foreign market and using extensively imported raw materials subject to a duty; and such manufacturers will avail themselves of free port or free zone locations. A free port is also an advantageous location for plants assembling foreign-made products both for reshipment and for sale in customs territory.

The operation of the European free ports, both large and small, shows clearly that in order to be successful a free port or a free zone must be located in a port advantageously situated for transshipment trade, and it is also shown that in order to taken full advantage of free port or free zone facilities, a port must have efficient equipment and well coordinated transportation system. This is true because a free port is chiefly a mechanism for facilitating trade rather than creating it, although the creation of trade is undoubtedly an important result.

These statements concerning the effect of free port or free zone facilities on commerce and industry are verified by the experiences of the free ports at Hamburg, Bremen, Copenhagen, and at minor European ports.

Formerly London, Liverpool, and Hamburg were important ports for the collection of South American products and their distribution to the United States. For example, much of the Brazilian coffee reached the United States via Hamburg. London sold us quantities of Brazilian rubber. Our manufacturers and importers purchased Argentina wool and hides and Peruvian cotton in European ports. If a great transshipment port and central market is created here in which surplus products can be disposed of advantageously, and to which therefore shippers and carriers all bring raw material from all over South America, it will be possible for us to obtain a much greater portion of these products direct than was the case formerly. In addition to making more direct imports, we can certainly become as efficient in serving Europe as the European ports have been in serving the United States.

On the other hand, if a great market for South American raw materials is created in Jersey City, there is no reason why it should not distribute even in territory served by the European ports.

The United States and Canada have always bought great quantities of Australian, African, and far eastern raw materials in European ports. For illustration East Indian spices have been purchased extensively through Amsterdam; London has been the great market for Australian wool; a large part of our imports of African rubber and mahogany come through Liverpool. The development of a great free raw material market in Jersey City would to some extent break down the power of the European ports in the African, Australian, and far eastern trade.

The free port in Hamburg has been one of the chief factors, if not the greatest, in developing the enormous transshipment trade and international market of that city; the free port of Copenhagen has developed the transshipment trade of that port; and we should receive as valuable benefits from the creation of a free port as Hamburg, or Copenhagen for in other respects we are now well qualified to develop transshipment trade.

While the greatest value of a free port would be the aid given in developing this port as a transshipment center and a market for raw materials rivaling those of Europe. It would also have other beneficial effects which should be considered.

A great majority of all the industries of this country using foreign raw materials of the type which center in the great world markets are located in territory tributary to Jersey City. All of those industries would be greatly benefited by the creation of a large raw material market in the port of New York. For instance, the great tanners of Newark demand quantities of hides from almost every part of the world; New York City itself is the greatest refiner of sugar and roaster of coffee in this country; New England, on one side, and Philadelphia, on the other, are both enormous consumers of wool; the New York metropolitan district with approximately 7.5 per cent of the total population of the United States, and the district lying within 200 miles of New York City, with one-fifth of the total population of the country, constantly demand great quantities of such food products as rice and cocoa, which the experience of European free ports has shown will center in such markets. The possibility of purchasing such materials cheaply and of any grade or type desired would be of very great importance to the industries and food consumers of this district.

In presenting this brief we desire to acknowledge our indebtedness to the Merchants Association of New York City for much of the material embodied in this brief.

EDWIN B. LORD,

*Executive Vice President Jersey City Chamber of Commerce.*

#### STATEMENT OF MAJOR PHILIP GUISE, CITY DEVELOPMENT ENGINEER OF JERSEY CITY, N. J.

Major GUISE. Mr. Chairman and gentlemen, I will present a very brief statement to the effect that Jersey City is very much in favor of the establishment of a free port zone within the port of New York and throughout the country generally; because we think conditions are more or less the same throughout the country. We think, fundamentally, that the result would be, for example in the harbor of New York, to greatly facilitate the rapid entrance and clearance of vessels, thereby attracting more shipping to the port.

Mr. CULLEN. May I ask you a question there: Do not you cooperate, the State or city of Jersey, with the New York Port Authority?

Major GUISE. Oh, yes.

Mr. CULLEN. Have not you a similar act in New Jersey passed by your State legislature, or did the act of the State of New Jersey provide for cooperation with New Jersey?

Major GUISE. The act creating the port authority?

Mr. CULLEN. Yes.

Major GUISE. Why the port authority is a bi-state body consisting of a commission, I think of 12, 6 of whom are from New Jersey and



6 from New York, the present chairman of which is a New York man.

Mr. CULLEN. I have some knowledge of the act passed by the legislature of my State, but I just wanted that for the record.

Major GUISE. The act was passed by both legislatures. It is a bi-state body. As I say, the fundamental result of creating a free zone or port would be to facilitate the rapid entrance and discharge of vessels without the necessity of very close supervision and examination by customs inspectors of all the various commodities on such a ship, necessarily delaying her, thus enabling the ship to get out very much quicker. And that is a very great factor in the cost of operation. One day's delay of one of these big ships costs a lot of money, as brought out by Mr. Hedden as, for instance, when you figure that a big ship coming in from South America and entering such a zone can save from \$1,000 to \$5,000.

Mr. CULLEN. That is in the matter of the dispatch of the steamship?

Major GUISE. Yes.

Mr. CULLEN. Which, of course, is a very important thing. I have some knowledge of that in the port of New York.

Major GUISE. Yes. We think that is really the fundamental of the situation. In New York City the port operation is quite expensive—very expensive. This is due greatly to the geographical location of the port. Most of it has been developed on Manhattan Island, on the east side of the Hudson. Be that as it may, the investigations of the port authority, who have gone very much into detail, have brought out that it is a very costly operation. Now, then, if you facilitate the entrance of these ships and rapid discharge of their cargo so that they can get out quickly, you are going to attract shipping to the port of New York or any other port. And what we are mostly concerned within Jersey City is to provide work for our people who have nothing to do, which, we think, could be brought about more quickly by speeding up the operations of the port of New York than in any other way.

I am not prepared to go into a lot of technical detail on this thing, but I think that really sums up the situation.

Mayor Hague feels that with such a free port established on the continental side—I hesitate to talk about the location for this thing, because it is for the port of New York and that matter can simply be left to the future, after the right to establish a free port has been created by action of Congress; but since locations have been mentioned here, I would like to point this out to your body, that we feel such a free port established on the continental side of New York Harbor, the westerly bank of the Hudson, where contact with all of the great trunk lines of the country already exists, would result in reducing the port operation throughout the harbor, saving much time in loading and unloading vessels and their time in port, which is the important factor with the steamship companies. They want to get in and out quickly. There the ships would be repaired; they would be revictualled; they will be coaled; they will receive fuel oil, chandler stores, and innumerable other supplies. Besides that, the harbor fees, the Government fees for entrance and clearance of all these vessels, would be an additional revenue for the Government.

By creating such a zone, the present cumbersome costly method of transfer to bonded warehouses, which involves the carrying of

this merchandise by something like 15,000 trucks to get it into the warehouses, and to take it out, would be done away with. Bonding would be unnecessary. The present cumbersome, costly, slow, expensive method would be modernized.

What you accomplish by establishment of free zone or port is the rapid functioning of port operation; you are bringing it up to date, and if you add that within this trade zone you have the right to store, manipulate, blend and do more or less work upon the goods or merchandise entering the free zone, you provide additional employment for American labor.

To what extent manufacture should be permitted is a question, I think, we can safely leave to the discretion of your committee.

It seems to me there is not a thing we can lose by the adoption of this legislation; it facilitates the port operations throughout the entire country and, on behalf of Mayor Hague and the city commission of Jersey City, I earnestly hope you will put this thing through.

Mr. CULLEN. Mr. Joseph A. Boylan, representing Commissioner McKenzie, Department of Docks, city of New York, has attended the hearings to-day and desires to be recorded as favoring the proposed legislation.

Mr. G. H. Pouder, of the Baltimore Association of Commerce, has requested permission to file for the record a letter indorsing the proposed legislation, and, without objection, the letter will be included in the hearings.

(The letter referred to is as follows:)

BALTIMORE ASSOCIATION OF COMMERCE,  
Baltimore, Md., February 17, 1933.

HON. THOMAS H. CULLEN,

Chairman Subcommittee on Foreign Trade Zone Legislation,  
Ways and Means Committee, House of Representatives, Washington, D. C.

DEAR SIR: With permission of the Hon. Thomas H. Cullen, chairman, I wish to state for the record of the subcommittee of the Ways and Means Committee, considering proposed legislation for foreign trade zones, that this organization, representing foreign trade, shipping and general commerce interests of this city, favors the principal of congressional authorization for the establishment of foreign trade zones at ports of the United States. We believe that this authorization should be granted along general lines, and that port communities and States should be given the right to establish such zones, if deemed wise and desirable, for the general stimulation of the shipping and foreign trade of the United States and of the maritime and trading activities of the respective port cities.

Very truly yours,

G. H. POUDER,  
Director Export and Import Bureau.

(The subcommittee thereupon adjourned until to-morrow, Thursday, February 16, 1933, at 10 o'clock a. m.)

## FOREIGN-TRADE ZONES

THURSDAY, FEBRUARY 16, 1933

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,  
*Washington, D. C.*

The subcommittee met at 10 o'clock a. m., Hon. John W. McCormack presiding.

Mr. McCORMACK. The subcommittee will continue its hearings on the subject of the establishment of foreign-trade zones. I see the distinguished gentleman from Virginia, Mr. Lankford, is present. I am informed the gentleman would like to address the committee. We will be glad to receive the benefit of his profound knowledge.

### STATEMENT OF HON. MENALCUS LANKFORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. LANKFORD. Mr. Chairman and gentlemen, I am very much obliged to the committee and I should like to take this opportunity of expressing my appreciation of this opportunity to say a few words in support of this very remedial measure.

I speak for the port of Hampton Roads and the State of Virginia. This is a matter that has been before our State and out port for a great many years. I want to say that we indorse this measure, or the principle embodied in either one of the two bills before you; either the Celler bill or the Welch bill. We indorse the general principle most heartily.

We have always felt that the principle of foreign-trade zones, if carried into practice, would be extremely helpful to coastal areas.

These coastal areas are thickly populated, as the chairman knows. There is a dearth of labor. All of us believe that the establishment of these foreign-trade zones on the coast would be the means of reviving those entire sections.

We are facing changing conditions in the world to-day. I do not suppose anyone knows what the next 10 years is going to bring forth. You know what conditions are to-day. It does seem to me that there could be no possible harm in granting this privilege to those who want to establish foreign-trade zones. There are some who have wanted to do this for a long time.

It will give great encouragement to those, especially in sections where it is possible to use them. Labor is now cheap. It may be the means of creating a very large industry. I do not see how it could provide competition for any local industries or any domestic industries, because as I understand the provisions of the bill, there is no provision made for manufacturing. The bill provides simply for assembling material as it comes in and then sending it out to some foreign nation.

The establishment of free zones or foreign-trade zones at Hamburg and Bremen is the reason for the success of those ports. They have had them there for many years.

It does seem to me that this is an opportune time for us to establish them in this country. I believe it would be a great encouragement to the country, granting this opportunity to establish these ports. It is entirely possible that it may be the means of a revival of foreign trade.

I am not going to go into details on this question, Mr. Chairman, because there are those present who can give you those details better than I. I simply want to voice the approval and the enthusiasm of the people of my State and my district for this measure.

Mr. McCORMACK. These bills provide for the use of public funds in the establishment of these foreign-trade zones.

Mr. LANKFORD. Do you mean Federal funds?

Mr. McCORMACK. No; funds to be provided by the States or the local subdivisions thereof. Of course, these are rather hard times and any such capital investment, if made out of public funds, would have to be raised, in the main, by taxation. What is your opinion on the matter of permitting private capital to engage in this enterprise?

Mr. LANKFORD. I think that is far preferable; in fact, I would not favor the use of public funds for this purpose, if private capital can be found.

Mr. McCORMACK. I just wanted to get your reaction to that suggestion.

Mr. LANKFORD. That is the reaction that I am sure you would get from the people of my section on that question.

Mr. WATSON. Do you think you could get private capital to invest in the establishment of such a foreign-trade zone? It would cost a great many millions of dollars to establish such a zone, if it were comparable to Hamburg or Bremen. Do you think you could interest people to invest private capital sufficient to carry on such an enterprise?

Mr. LANKFORD. I think there would not be the slightest difficulty. I think that with the privileges enumerated in the bills before you, you would have not the slightest trouble in getting private capital to invest. I have been in touch with the Bush Terminal people for some years, trying to get them to establish a terminal in Norfolk. If this were allowed, I am sure that we would have no difficulty in obtaining funds for it.

Mr. WATSON. If you want to get private capital to invest in this enterprise, I think it would be necessary to extend to them the privilege of manufacturing, in addition to the other privileges enumerated in the bill.

Mr. LANKFORD. Personally I would favor including the right to manufacture. I know that there is a great deal of objection to it. I think the proposition as a whole is so important that I personally would be willing to waive the manufacturing privilege for the present, to see how it works out. Of course, the right to manufacture would make this a much more valuable project. But outside of the manufacturing, I believe that we can do enough foreign trade to justify the expense of any capital investment.

At any rate, I see no objection to permitting the establishment of the foreign trade zones. If they do not want to do it, there is no

harm done; that is, if they do not want to take advantage of it. But it would be an encouragement, a step in the right direction toward world development. I think it would be very helpful at the present time.

Mr. WATSON. The establishment of these foreign trade zones along the coast would create a differential in their favor as against manufacturers in the interior part of the country, would it not?

Mr. LANKFORD. That is what the manufacturers say. But if those goods are going to be manufactured in some other country, and we can have them manufactured here or processed here, we would get the benefit of the employment of labor in this country by establishing these foreign-trade zones. I do not believe that it would hurt the domestic manufacturer, or the manufacturer in the interior. The goods that are consumed in this country are going to be manufactured by domestic manufacturers anyway. What they are looking toward, in this proposition, is world trade.

Mr. WATSON. I have reference to the manufacture of these goods in another part of our country. Let us say that there is one factory in Norfolk and another one in Detroit or in Chicago, and at each of these points there is established a foreign-trade zone. Because of the location of Norfolk on the coast, would there not be a differential in its favor as against the interior points?

Mr. LANKFORD. Possibly so.

Mr. WATSON. They would have that advantage over the interior cities, would they not?

Mr. LANKFORD. These goods are not to be sold in this country. Norfolk might have the advantage for Europe but Chicago would for Canada and the Far East. They are to be sold outside of the country. If they are sold in this country the tariff is paid on them. But the raw material is brought in here, then the product is sold to some foreign country. The chances are that those goods would be manufactured and sold wholly in a foreign country anyway.

Mr. WATSON. But there are many commodities manufactured in the interior to which that argument would not apply. For instance, furniture is manufactured in Michigan from wood imported from Canada. If there were a foreign-trade zone along the coast, it would have an advantage over those manufacturing points in Michigan, would it not?

Mr. LANKFORD. As I understand this bill, it does not confine this to coastal cities. They can establish one of these zones in Chicago or anywhere else.

Mr. WATSON. That is true, but the cities along the coast would be more likely to establish one of these zones than cities in the interior?

Mr. LANKFORD. I think that is true. I think this would be particularly for the benefit of coastal cities.

I am frank to say that I am not making a point of manufacturing at this time. I think we probably should try this out and see how it works, without manufacturing, and perhaps include that latter.

I can see no objection to establishing this principle. I think it would be extremely helpful and would be of some encouragement to the people, considering the condition they are in now.

Mr. CROWTHER. Mr. Lankford, you can do pretty nearly all these things that are provided in these bills under the present law, can you not?

Mr. LANKFORD. Doctor, you have the right to do it, in a way, but it is very complicated and I do not believe all of the benefits are derived that could be derived.

Mr. CROWTHER. I think the principal object is to segregate an area and be relieved, within that area, of customs supervision.

Mr. LANKFORD. It makes it very much easier to operate. Perhaps you have been in Hamburg and have noticed how they operate there. They really have a city within a city. Everything that goes in goes in free. It is very much easier to handle those goods.

First, we visualize a gigantic Atlantic & Pacific store for world trade at which the buyers of the world would assemble at a central place to make their purchases of world products—not only would this enable us to trade in world products, but we could mingle with these world products a vast quantity of American products as well. Instead of a buyer combing the remote markets of the world for these commodities, he could come to this central trade zone and fill all of his requirements.

Second, it is impossible to engage in a business of this kind under the present act. Under the present act he is required to pay the duty upon entry. This would involve millions of dollars in interest charges if business was carried on, on a large scale, as many of these goods would remain on the shelves, as it were, for a year or possibly several years before the rebate could be collected from the Government and during which time interest charges would accrue.

I will endeavor to get for you the plan of the Hamburg operation, but it occurs to me that if we regard these trade zones as an island on which all goods are assembled we need only guard the exit for goods entering the United States which are dutiable, without being bothered with the goods that enter the island in which the customs authorities are not interested.

Those are the thoughts of the people of my section on this matter, Mr. Chairman. I am very much obliged to you gentlemen for this opportunity.

Mr. McCORMACK. Thank you, Mr. Lankford.

We will hear from Mr. Dow, Acting Commissioner of Customs.

#### STATEMENT OF FRANK DOW, ACTING COMMISSIONER OF CUSTOMS, TREASURY DEPARTMENT

Mr. McCORMACK. Mr. Dow, we shall be glad to receive any statement on this subject that you may wish to make.

Mr. Dow. Mr. Chairman, the Treasury Department has always been opposed to these bills. Senator Jones introduced such a bill about three years ago.

I have no prepared statement to make, Mr. Chairman.

Mr. McCORMACK. Have you given the subject matter of these bills any consideration?

Mr. Dow. We think you can do practically all those things now, under existing law.

Mr. McCORMACK. If you know, what are the reasons for the position taken by the Treasury Department?

Mr. Dow. It is just because this is unnecessary legislation. You can do all these things now under existing law. It would provide an opportunity for smuggling, if you have these free zones.

Mr. McCORMACK. How would that opportunity be greater than it is to-day?

Mr. Dow. There would be no customs control over the merchandise as it came into the zone. We would have to have guards around the zone. That would cost plenty of money. One of the bills provides, as I understand it, that the operators of the zone shall pay the expense of guarding the zone. The other bill says nothing about that, which would mean that the Treasury Department would have to pay for it. In either case it is going to cost somebody plenty of money.

Mr. McCORMACK. My mind is open on this subject, but I am going to assume that I am in favor of the principle of the bill, in order to elicit some information from you, by asking a few questions. You mentioned the matter of expense of guarding. You do not advance that as an argument against the bill, if you would favor it otherwise, do you?

Mr. Dow. If it is going to cost the Treasury Department a lot of money; yes.

Mr. VINSON. What do you mean by a lot of money?

Mr. Dow. A lot of money in addition to what it is spending now.

Mr. VINSON. But just what do you mean by that? How much money have you in mind?

Mr. Dow. Well, I could not tell that.

Mr. VINSON. It is all relative, you know.

Mr. Dow. It would depend entirely upon the number of zones that are created.

Mr. McCORMACK. Saying "a lot of money" is like saying that an automobile is going fast. Some people may think 10 miles an hour is fast, while others would think that 40 miles an hour is not fast.

Mr. Dow. Suppose you had a zone in a certain city—

Mr. VINSON. Take a specific city; let us take New York City.

Mr. Dow. In the first place, it depends on the size of the zone, whether you are going to have two piers or whether you are going to have a mile of water front. It depends on the location of the zone. You would have to guard that 24 hours a day 7 days a week. You understand, we would have no control over the merchandise going into the zone. We would not know what was in there.

Mr. McCORMACK. It seems to me you could rely to some extent on the assumption that people will do what they ought to do. If a foreign trade zone were being conducted by the Port of New York Authority, could you not assume that those gentlemen will do their duty?

Mr. Dow. Oh, yes.

Mr. VINSON. Undoubtedly you would have to watch the exits, because it would be very easy to avoid paying the duty, if a close guard were not kept on the exits.

Mr. Dow. Suppose you had a zone in New York City or let us say in East Boston; some busy place. Or you might take San Francisco, right on the water front. There are all your piers, your warehouses, your entrances. Traffic is going back and forth. Certainly you must have plenty of guards in order to know what is coming out of that zone.



Mr. VINSON. Let us take a specific case. You talk about two piers or a mile of water front. Tell us in dollars and cents what it would cost, if you know.

Mr. Dow. You have a vessel coming in from abroad. That vessel may be loaded down with cargo. The customs authorities are not in there. The vessel comes in with no supervision on the part of the customs authorities whatever. A lot of merchandise is landed in the zone. Speaking from the customs standpoint, that seems to be a dangerous thing, to allow cargo after cargo of merchandise to come into the zone about which the customs authorities know nothing.

Mr. McCORMACK. How do they provide against that in the free ports that now exist? What is the difference between their practice and the practice as proposed in the United States, in so far as the administrative features are concerned, if you know?

Mr. Dow. I do not know. Mr. Chairman, I have heard a good deal about these free zones, and foreign trade zones, for 10 years. To my mind, the whole thing is hazy.

Mr. McCORMACK. Do not misunderstand me. You are not under cross-examination. We are just trying to get information. If these questions that are asked you sound as though you are being cross-examined, understand that is not what we are trying to do at all.

Mr. CROWTHER. Right on that point, one of the witnesses who was here yesterday, I believe from Jersey City—I have forgotten his name; he was the engineer—in a conversation that I had with him after the hearings closed, told me that in Germany—and I do not know whether he was referring to the port of Hamburg or some other port—the pilot who brings the ship in, in addition to being the pilot, is a customs officer. So that the ship is in charge of a customs officer when it comes into this free port. The entire area over there is fenced in with a steel wire fence, and that extends even out into the water. The blockade extends out some distance. At various places there are guards. So that they have the exists from the place guarded and they also have a customs officer in charge of the ship as it comes in, acting as customs officer and pilot.

Mr. VINSON. We tried some time ago to get some information as to just what the procedure was over there, what authority they had, and so forth, but we did not get any definite information.

Mr. CROWTHER. The information that this witness gave me was in a conversation I had with him after the hearings closed.

Mr. Dow. Personally I do not know. I have heard of the free port of Hamburg, but what their procedure is I do not know.

Mr. McCORMACK. You have not given the subject sufficient study, Mr. Commissioner, to be able to form a definite opinion as to the advisability of the establishment of foreign trade zones, aside from the administrative features which you have mentioned?

Mr. Dow. Reading over the bill, I do not know what they could do in these zones that they can not do right now under existing law, under the tariff act of 1930.

Mr. McCORMACK. If it were merely a matter of the expense involved, and it was simply a question of the possibility of smuggling, if those were your only objections, you would not interpose any serious objection to this bill?

Mr. Dow. Yes. As a customs officer I would feel that smuggling would be a very serious objection; the possibility of smuggling merchandise into the country.

Mr. McCORMACK. You could place the responsibility for that upon those who were conducting the free port. It would be very easy to find out and to provide for a report of what is going on. They could be held accountable for all the merchandise that came in going out within a reasonable period. By a reasonable period I do not have in mind any specific number of months, but it would be a question of fact that could be determined. The importers of the merchandise would have to pay the duty if it were not shipped out within reasonable period.

Mr. VINSON. It seems to me that that is the very theory upon which your drawback law is based, strict accountability. They pay the duty. They are accountable. The burden is on them to see that the goods are reexported if they are to get the drawback.

Mr. Dow. Under certain sections of the tariff act of 1930, you can do all these things now and you do not have to be on the seaboard.

Mr. McCORMACK. We will come to that provision later. We want to get some information from you now on the question of smuggling. If it were only a question of the possibility of smuggling, if that were your only objection, you would be able to handle that situation, would you not? The United States Government is powerful enough to be able to cope with that.

Mr. Dow. Yes; but it is going to cost money.

Mr. VINSON. How much money? Will you take a hypothetical case and try to give us an idea of how much it would cost?

Mr. Dow. I do not want to make any guesses here. Doctor Crowther was trying to get me to guess something the other day on another matter. It would depend entirely upon the number of zones that you had.

Mr. VINSON. The best way to do that is to take one specific zone and make your hypothetical case; whether you had two piers or a mile of water front or however you would have it. Give us your best judgment as to what it would cost. You are certainly in a better position to give us that information than anybody I can think of at this time.

Mr. Dow. Let us take as an illustration a zone in New York City. Let us say you had two piers. Suppose you had a fence all around it. You would have to have guards there 24 hours a day. Guards get a salary of \$1,860 a year. Each guard works eight hours. He is allowed one day off in seven and he is allowed Saturday afternoon off.

Mr. WATSON. How many have you employed under the drawback system?

Mr. Dow. The drawback system is very inexpensive to operate. We have no guards.

Mr. WATSON. Does the Government find the drawback system satisfactory?

Mr. Dow. I would say so, yes.

Mr. WATSON. You think all these things can be done as well under the drawback system as under the system of a foreign trade zone?

Mr. Dow. Under the present law we have bonded warehouses and manipulation warehouses. These bills only provide, as I understand,

for merchandise to be taken into the free zone and manipulated, but not manufactured. We have the same provision now in certain sections of the tariff act, whereby goods may be manipulated, not only on the seaboard, but anywhere, in any warehouse. All they have to do is make the application, put up the bond, and start business.

Mr. VINSON. Is there any power under the 1930 act to refine?

Mr. Dow. Yes; we have smelting warehouses.

Mr. VINSON. Mixed with foreign or domestic merchandise or otherwise manipulated?

Mr. Dow. Yes. That would be the drawback. For example, you can bring in pencil leads and manufacture them into pencils. You get the drawback on the leads. That is mixing domestic with foreign merchandise.

Mr. WATSON. Would you advocate Government control over these zones instead of private capital?

Mr. Dow. You mean ownership by the State?

Mr. WATSON. Yes.

Mr. Dow. From the customs standpoint I do not think it would make much difference.

Mr. WATSON. Would you have a better control over it if the Government operated the zone?

Mr. Dow. I think in either case the Federal Government would have to guard that zone in order to protect the Federal duties.

Mr. WATSON. For instance, about 125,000,000 pounds of sugar comes into the country under the drawback system. Do you think there would be more sugar imported to be manipulated under the foreign trade zone system than is now imported under the drawback system?

Mr. Dow. No. I think if you had the free zone system, that would not affect the sugar refineries, because the sugar refineries are manufacturing raw sugar now and getting a drawback on it.

Mr. WATSON. One hundred and twenty-five million pounds of sugar come in now. That is changed or manufactured under the drawback system. Do you think there would be more sugar coming in if we established these foreign trade zones?

Mr. Dow. I do not think any more would come in, no. I think the sugar refineries at the present time have just the same privilege as they would have under this bill. I do not see how the sugar refineries could operate, because these bills do not permit manufacturing. When you bring in raw sugar and make refined sugar, that is manufacturing.

Mr. WATSON. This bill permits the mixing of it.

Mr. Dow. Yes.

Mr. WATSON. They could mix it with fruit and then export the fruit?

Mr. Dow. That is manufacturing, though.

Mr. WATSON. The question is whether or not it is manufacturing.

Mr. Dow. If you bring in raw sugar and you mix your raw sugar with fruits, then can it and export the fruits, that is manufacturing. That comes under the provisions of the drawback system. We pay out about half a million dollars a year to the canneries on the Pacific coast who do just that.

Mr. WATSON. Under the provisions of this bill, you could do the same thing, could you not?

Mr. Dow. I do not think so. I do not think this bill permits manufacturing.

Mr. WATSON. It says that it may be broken up, assembled, sorted, refined, graded and cleaned, mixed with foreign and domestic merchandise, and so forth. Therefore it could be mixed with domestic fruits. If you mix it with domestic fruits you could then export it. You can do that under the bill, can you not?

Mr. VINSON. The Celler bill specifically says "but not manufactured."

Mr. Dow. That is my understanding.

Mr. WATSON. But it could be mixed. The question is, when you mix sugar with fruits, pack it, and ship it, whether that is manufacturing, and whether it could be done under this bill.

Mr. VINSON. The commissioner says that it is manufacturing and that they pay out half a million dollars a year to the canneries on the Pacific coast under the drawback system; is that right?

Mr. Dow. Yes, sir.

Mr. VINSON. Do you say that there are no rights conferred here under this principle of a foreign trade zone that is not provided for in the tariff law of 1930?

Mr. Dow. I think there is one provision in the bill which permits exhibiting the merchandise in the free zone, as I recall it. That is a new permission.

Mr. VINSON. Otherwise all the powers and rights that are granted under this bill are contained in the 1930 Act.

Mr. Dow. How about that, Mr. Haywood? Is that right?

Mr. HAYWOOD. That is substantially so.

Mr. CROWTHER. May I say that that is really one of the purposes of the proponents of this legislation, to have in this center, in this area, one building largely devoted to the expedition of foreign merchandise, products of various kinds from foreign countries. I think that is illustrated by the testimony of various witnesses on this subject in years gone by. Their idea is to have a village within the port of entry, a segregated territory in which they may erect buildings with manufacturing equipment of one kind or another.

In the case of New York it seems to me that the sensible thing to do, as was stated, if they establish a foreign trade zone, would be to put it on the continental side, on the Jersey side, where they have their avenues to all the railroads and save lighterage across from the New York side. That is the intention, as I understand it.

Do you not understand, Mr. Dow, that one of the principal purposes is to have an exhibition palace, so to speak; a place where people can go and look at imported articles, decide whether they would be useful to them or not? I think that was prominently mentioned in past years.

Mr. Dow. Section 2 of the Welch bill, and I believe there is a similar section in the Celler bill—says:

Foreign and domestic merchandise of every description, except such as is prohibited by law, may, without being subject to the customs laws of the United States, except as otherwise provided in this act, be brought into a zone and there stored, exhibited for the purpose of taking orders, broken up, etc.

In other words, this says that the merchandise may be brought into this zone without being subject to the customs laws of the United States. That means that you can have a shipment come into a zone and no customs officer board the ship. We do not check up the manifest, do not count the packages. We do not know what is in the zone.

Mr. McCORMACK. Do you not think that the Government could take care of that?

Mr. Dow. I will admit that is not a terribly serious objection; but, to my mind, trained in the customs service, it is a little disturbing.

Mr. McCORMACK. The Government is advised of what is coming in and what is going out.

Mr. VINSON. I think that is a serious question, that of bringing in merchandise without the customs supervision.

Mr. McCORMACK. But do you not think the Government is capable of taking care of it?

Mr. Dow. I think they could, just as I thought they were capable of taking care of the prohibition question.

Mr. VINSON. It would certainly be hard to administer.

Mr. Dow. When a large vessel comes in with a great cargo, at the present time the customs boarding officer goes on board that ship, checks up the manifest, and every single piece of merchandise on that manifest must eventually be accounted for. It must all be classified and examined. Every piece must be accounted for. We consider that very important—to account for every piece of merchandise that comes into the United States.

Mr. McCORMACK. Of course, it is important; but it is a matter which can be taken care of, if that is the only objection you have.

Mr. Dow. The only point I was making is this: Your ship comes into the zone and we do not have a manifest. It comes in without any customs supervision whatsoever under the language of this bill.

Mr. McCORMACK. Do you not suppose that rules and regulations will be provided to assure protection to the Government?

Mr. Dow. Rules and regulations would be provided; yes.

Mr. McCORMACK. Certainly they would be. Now, you talk about guards. Of course, there probably would have to be a certain number of Government employes there, but do you not think that the Secretary of Commerce would be very careful to whom he granted authority to establish a zone?

Mr. Dow. Yes.

Mr. McCORMACK. And if they were discovered violating any Federal laws, drastic action could be taken, even to the extent of revoking their permit to conduct a foreign trade zone, if it was felt necessary?

Mr. Dow. All I can say is, with the best intentions in the world, still there are smugglers.

Mr. McCORMACK. Of course, there is the human equation that enters into it, and which we will have as long as the human race exists. But we must assume that a person is going to do what he is supposed to do until we find out otherwise, must we not?

Mr. VINSON. If you followed that philosophy out to its logical conclusion, we would never know what smuggling is going on right now. If you expect everybody to do that which they are supposed to do, you would not know anything about any violations until you

stumbled across them. You have got to go out and find these fellows who are doing some of this smuggling, do you not?

Mr. Dow. Oh, yes. You have to discover the smugglers.

Mr. McCORMACK. When a big passenger vessel docks in New York, you do not assume that everybody on board is a smuggler, do you?

Mr. Dow. No.

Mr. McCORMACK. You assume that they are not?

Mr. Dow. We have an open mind.

Mr. McCORMACK. I am surprised you take that attitude. I always assume that a person is going to do what he is supposed to do, until I find to the contrary.

Mr. Dow. Yes; naturally.

Mr. McCORMACK. If you are walking along Pennsylvania Avenue, you do not have it in your mind that everybody you meet is a law-breaker, do you?

Mr. Dow. No.

Mr. McCORMACK. You assume that they are there for a lawful purpose, just the same as you are. It is natural to think that. Now, with reference to these guards that you mentioned. You could deputize the guards that the foreign trade zone authorities might employ as Federal officers for that purpose, could you not?

Mr. Dow. That would be possible.

Mr. McCORMACK. There would be a cooperative spirit, I am sure, shown by these people. The main purpose, as I understand, in the establishment of the free port, is to facilitate transshipment.

Mr. Dow. Transshipment?

Mr. McCORMACK. Yes. You understand what I mean by that?

Mr. Dow. You mean merchandise coming from abroad and then transshipped to another foreign country?

Mr. McCORMACK. Exactly. That was the main argument made by one of the witnesses in favor of this bill.

Mr. Dow. That can be done now very easily. Merchandise is coming into New York every day on foreign ships, being transported across the city to other piers, and then transshipped to Cuba and to other foreign countries.

Mr. VINSON. The merchandise can be broken up now, can it not?

Mr. Dow. If they wish to bring the merchandise in, they can take it to a bonded manipulating warehouse in any city in the interior, New York or anywhere else. They can do that now. They can break it up, sort it, clean it, mix it with other merchandise, and so on; and then ship it out of the country; or they can take it out for consumption in this country, pay the duty on it, in the condition in which it is when it leaves the warehouse. All that can be done now.

Mr. WATSON. You state that everything that is provided for in this bill could be done now under the drawback system. Would it be more economical for the operator in the foreign-trade zone than it is now under the drawback system? Under the present drawback system they have to pay the duty when an article arrives. The duty has to be paid at once. Therefore, he loses the interest on the money which he pays on the merchandise as duty. Then he loses 1 per cent of the amount of that duty when he recovers his drawback.

Mr. Dow. That is on the drawback; yes.



Mr. WATSON. Therefore it would be more economical for him to operate in a free-trade zone than under the drawback system, would it not?

Mr. Dow. But under the drawback system you must produce or manufacture. These bills specifically prohibit manufacturing in the free zone.

Mr. WATSON. I know, but you can manipulate. And what is manipulation? That comes pretty close to being manufacturing. How would you define manipulation?

Mr. Dow. Manipulation is defined as cleaning and sorting, and so forth.

Mr. WATSON. Mixing?

Mr. Dow. Mixing; but that is not manufacturing.

Mr. WATSON. Or otherwise manipulating. It says, "mixed with foreign or domestic merchandise or otherwise manipulated." That may be construed to mean almost anything, might it not? That is pretty broad language. You must acknowledge that it is cheaper to operate in the free zone than it is under the drawback system.

Mr. Dow. Yes. If you had a factory up in the interior of Pennsylvania or in any other State, manufacturing lead pencils, at the present time they import the leads, pay the duty on the leads, manufacture the lead pencils and export them out of the United States and get their drawback of 99 per cent of the duty that they paid on the leads.

Mr. WATSON. They lose 1 per cent.

Mr. Dow. Yes. Now, if they had a free zone and that concern moved its factory into the free zone, they could bring the merchandise in there and manufacture it, and ship it out and save the duty during that period.

Mr. WATSON. If this bill passes, including in its provisions the privilege of manufacturing, would not that take away from the drawback system any advantage that it now has?

Mr. Dow. I am inclined to think the people that have drawback rates now would still continue to do business, because I do not think they would move into the free zones.

Mr. VINSON. That is the point I was going to make; those who were in the free zones would have whatever advantage there was and there would be discrimination against those folk who had established businesses elsewhere, if there were any particular monetary advantages; is that correct?

Mr. Dow. Yes.

Mr. McCORMACK. Have you any evidence of the extent to which smuggling is carried on in the free ports of other countries?

Mr. Dow. No; I do not.

Mr. McCORMACK. Your opinion with reference to that, then, is not predicated upon a careful analysis of similar conditions in other places where such things would be possible as a result of there being free ports?

Mr. Dow. No. It is not predicated on that. It is simply predicated on the fact that the merchandise is there, in a zone, and it just stands to reason that there would be more attempts to smuggle out of that particular zone than to smuggle across from Europe.

Mr. VINSON. Mr. Chairman, it seems to me that somebody ought to be able to get us some information about conditions in foreign free ports.

Mr. McCORMACK. Yes. I confess that I am at sea. We have had no evidence at all about that.

Mr. Dow. The representative of the Department of Commerce is here, and perhaps can tell you something about that.

Mr. McCORMACK. What other objections have you to this bill, besides the one you mention of the possibility of smuggling, if any?

Mr. Dow. The other objection is that we think it is necessary legislation; that all these things can be done, or practically all these things can be done under the existing law. I am speaking now purely from the administrative standpoint. I do not want to go into any question of policy. This law, of course, could be administered; there is no question about that.

Mr. McCORMACK. Have you considered the question of a free port enabling business men in the United States to extend their foreign markets?

Mr. Dow. No; personally I have not. That is a question of policy that I have not considered.

Mr. McCORMACK. Of course, even if the Government were put to some expense, if we brought about increased sales in the world's markets, the Government would be justified in undergoing some reasonable expense for purposes of administration, would they not?

Mr. Dow. I would think so; if it is going to be of real benefit to American trade, naturally we should look favorably upon it.

Mr. McCORMACK. If business men are willing to make the capital investment for the formation of a free port, if they are willing to put in their own money, is not that some indication of their confidence in such a project?

Mr. Dow. Yes.

Mr. McCORMACK. You say the Treasury Department is opposed to this and that they manifested opposition to the Jones bill?

Mr. Dow. Yes, to the Jones bill, in 1929.

Mr. McCORMACK. Have you got a copy of the position of the Treasury Department taken at that time?

Mr. Dow. Yes. That is set forth in a letter dated December 19, 1929.

Mr. McCORMACK. Will you incorporate that letter in the record?

Mr. Dow. Yes.

(The letter referred to is as follows:)

DECEMBER 19, 1929.

HON. W. L. JONES,

*Chairman Committee on Commerce,  
United States Senate.*

MY DEAR MR. CHAIRMAN: I have the honor to refer to your letter of December 7, 1929, with which you transmitted for an expression of my views a copy of a bill (S. 2356) to provide for the establishment, operation, and maintenance of foreign trade zones in ports of entry of the United States, to expedite and encourage foreign commerce, and for other purposes.

Under the provisions of this bill the Secretary of Commerce is authorized to grant to corporations, subject to certain restrictions, the privilege of establishing, operating, and maintaining foreign trade zones in or adjacent to ports of entry under the jurisdiction of the United States.

It is purposed to take into such free zones foreign and domestic merchandise without being subject to the customs laws of the United States except that the collector of customs shall supervise the unloading of foreign merchandise in the zones, cause such merchandise or any portion thereof to be appraised and the duties liquidated thereon, and such merchandise made thereafter be stored or manipulated under the supervision and regulations prescribed by the Secretary of the Treasury. Within two years after such unloading, such merchandise,



whether mixed with domestic merchandise or not, may be sent into customs territory upon the payment of such liquidated duties.

Under section 562 of part 4, Title IV, of the tariff act of 1922, merchandise may now be manipulated under bond without the payment of duty. This department has given a liberal interpretation to this provision of law in order to aid foreign commerce and to expedite the handling of imported merchandise part of which is intended for consumption in the United States and part for exportation to a foreign country.

Under regulations prescribed pursuant to the above statute, merchandise may be cleaned, sorted, repacked, or otherwise changed in condition, a portion of a building or an entire building may be bonded, merchandise may be taken directly to manipulation warehouse or be transferred thereto from other warehouses, and less than one package may be withdrawn on special application made therefor.

But neither use has been made of the privilege of repacking, cleaning, etc., in manipulation warehouse and no such warehouse is now in operation at the port of New York where the greatest volume of importations occurs. This would seem to indicate that there is no real commercial necessity for providing accommodation for repacking, sorting, and similar manipulations on a large scale.

While domestic merchandise can not be taken into a manipulation warehouse, following the usual restrictions under the warehouse laws, domestic merchandise is taken into bonded manufacturing warehouses under the provisions of section 311 of the tariff act of 1922, there to be mixed or blended with imported materials or with materials subject to internal revenue tax.

The warehouse system is, in effect, modified free zone activities. This warehouse system has been built up by various carefully considered enactments of law extending over a long period of time. If it should seem desirable to add to the privileges now allowed under the manipulation warehouse law that of taking domestic merchandise into warehouse, this could readily be accomplished by amending said Section 562.

The expense now incurred by reason of customs supervision in a restricted area such as warehouses would be small in comparison to the expense which would necessarily be incurred in guarding free zones. Exact record must be kept of all importations and of every change made in connection therewith. The same restrictions that are now thrown around warehouses, such as the employment of storekeepers, would be necessary. It seems obvious that greater opportunity for loss by smuggling and theft would be present in a large area into which domestic merchandise could be taken than is now present under the existing warehousing system.

After a careful consideration of the bill in connection with a review of the facilities now afforded by storage warehouses, where merchandise may remain for three years without payment of duty, of manufacturing warehouses, smelting and refining warehouses, and manipulation warehouses, I am of the opinion that it should not become a law.

The above unfavorable opinion is expressed, notwithstanding the department's letter of January 30, 1926, addressed to the chairman of the Committee on Commerce, United States Senate, reporting no objections to the passage of a similar bill (S. 66).

Very truly yours,

OGDEN L. MILLS,  
*Acting Secretary of the Treasury.*

Mr. Dow. I would like to state that at the present time we have 50 manipulation warehouses. The reason I say that is because in the letter written in 1929 the statement was made that there were no manipulation warehouses at that time.

(The list of manipulation warehouses is as follows:)

Ports at which class eight manipulation warehouses are established at present Feb. 1933:

	Number
New York.....	4
Boston.....	20
Buffalo.....	2
Philadelphia.....	2
Norfolk, Va.....	2
Wilmington, N. C.....	1
New Orleans, La.....	11

	Number
Galveston, Tex.....	1
San Francisco.....	3
Seattle.....	3
Chicago, Ill.....	1
Total.....	50

Mr. Dow. That was our position then and we have not seen anything since to change our minds. Now, I understand that the Department of Commerce is in favor of this bill, and if the committee desires, we would be glad to get in touch with the Department of Commerce and see if something can not be worked out.

Mr. McCORMACK. I do not think it is up to us to suggest that you get in touch with the Department of Commerce. That is a matter of comity between the two departments, to try and develop an understanding on all matters affecting both departments.

Mr. Dow. The way it stands right now, as I understand it, the Treasury Department is opposed to the bill and the Department of Commerce is for it.

Mr. WATSON. Do you think that the establishment of these free trade zones, or foreign trade zones, would mean a loss of revenue to the Government?

Mr. Dow. No, I do not see that it would affect that.

Mr. McCORMACK. Has the Treasury Department ever conferred with the Department of Commerce on this question—if you know?

Mr. Dow. I do not know. I have not personally. There have been no conferences within the last few days.

Mr. McCORMACK. I am not limiting it to the last few days; within the last few years?

Mr. Dow. Well, I do not know. There is a representative of the Department of Commerce here, if you care to hear him.

Mr. CHALMERS. Mr. Chairman, I represent the Department of Commerce here. I have talked with Mr. Dow and others in the Treasury Department in the last few days, and we found that there was a difference of viewpoint. I have tried to do, Mr. Chairman, exactly the sort of thing that you suggest, see if we can not get our minds together and take a common position, and if there had been more time, I am pretty sure that we could have arrived at one. Unfortunately I, for one, did not learn of the hearing until the afternoon before it was to take place, and there was hardly time in the short few hours to get together. I believe the objections Mr. Dow has raised could be satisfied, and I shall try to do that in my direct presentation later.

Mr. McCORMACK. If there are no further questions, we thank you, Mr. Commissioner.

May I say to all the witnesses that they will please keep in mind the fact that the committee is just seeking information. Witnesses are not under cross-examination, they are here only to give us information. So far as I am personally concerned, while I know about this subject in a general way, I know very little about its technical aspects or the details of it, and whether or not it is advisable.

We will now hear Mr. Page, representing the Tariff Commission.

**STATEMENT OF HON. THOMAS W. PAGE, VICE CHAIRMAN UNITED STATES TARIFF COMMISSION**

Mr. McCORMACK. Mr. Page, do you want to make a statement to the committee, or would you rather the committee asked you questions, to bring out the information they are seeking?

Mr. PAGE. I surely do not want to make a statement, Mr. Chairman. I am down here merely because I was asked by the committee, for some reason, to come down here. I have no statement to make. I made statements before this committee about half a generation ago.

I wrote a report with my own hand, which I transmitted to Congress from the United States Tariff Commission, in which I pointed out at that time what I regarded as the advantages of free zones and the reason for establishing them in this country.

I am not as enthusiastic for free zones now as I was then. At that time we had a colossal commerce. We had the greatest commerce that had ever been known by any country in the whole history of humanity. Our ports were congested, over crowded. They lacked terminal facilities. It looked as if almost anything that could be done to increase their facilities would be a good thing for this country. Conditions are entirely different now.

Mr. McCORMACK. We hope that those conditions will return.

Mr. PAGE. When that time comes, it may be that free zones will discharge the function for which we wanted them at that time. I think Mr. Watson was on the committee when we had this thing under discussion at that time in 1919.

Mr. WATSON. I was not on the committee then.

Mr. PAGE. Mr. Fordney presided. He was the chairman, and he was a man for whom I had a very warm liking. After that report of ours came in, a bill was drafted to carry into effect the establishment of free zones, and the committee held hearings on the bill in this room. As I say, Mr. Fordney presided, and those of us who knew Mr. Fordney well will recall very clearly that the association of the word "free" with trade, in any connection, was like waving a red rag at a bull. He could not tolerate that association, and the witnesses had a very difficult time. Mr. Fordney did not leave anyone in doubt as to what his position was going to be on this matter.

Owing to our mutual good will, he was very pleasant to me; but the other witnesses had a very difficult time with Mr. Fordney.

Well, as far as I know, that bill never was reported out of the committee at all.

If the committee wishes, I can leave with it the report which I wrote myself and sent down in 1919.

Mr. McCORMACK. The committee has that before it at this time. As I understand, it is a document entitled "Information concerning free zones in ports of the United States," gotten up by the United States Tariff Commission.

Mr. PAGE. As I say, conditions have changed. As the Commissioner of Customs, Mr. Dow, has just said, our customs regulations have been modified and to some extent at least ameliorated; partly, if I may presume to say so, because of the careful study which we made on the Tariff Commission and in accordance with recommendations which the Tariff Commission made.

While the reasons for the establishment of free zones now are not so strong as they were 15 years ago, the objections to the establishment of free zones likewise are slight. There is no especial reason, if any city along the coast wishes at its own expense to establish a free zone, or at the expense of private capital, to object to it.

The questions which have been asked the witnesses who have preceded me I think have developed no reasonable objections to that.

The matter of smuggling, which the Treasury Department naturally and properly always has in mind, is not a question of real importance. It is easy enough to guard these zones. They do it abroad. Those of us who may have visited Hamburg will realize that it is more difficult to smuggle commodities out of the free port at Hamburg than it would be to smuggle them into the country in any other way. It costs the Government something to maintain a proper supervision over the ingress and egress to and from a free zone, but the cost would not be excessive. I should say that any port established with reasonable limits as to area, and so on, could be guarded adequately for a few thousand dollars a year. It does not cost much at Hamburg nor at Copenhagen. But we have not got in this country the same opportunities for making use of a free zone or a free port that they have abroad. We have no great back country to which we would like to ship goods free from the payment of duties, as they have in Europe.

Hamburg is a classical example of a free port. It is the one that was the most prosperous and, so far as I know, still is. Hamburg got its free zone as a concession from the German Empire, to persuade the people of Hamburg to join the Empire. Hamburg did not become a member of the German Empire for several years after the Empire was organized, and the chief objection that the people of Hamburg made was that if they had to come into the Empire and pay the duties of a German tariff on all the commodities brought into Hamburg, it would ruin Hamburg. The city lived then and has lived since mainly on its international trade. Hamburg is a great center for assembling goods from other countries, and distributing them to yet other countries; it has done and still does a colossal business of that kind. It has got all of these other European countries to which it may ship its goods that it assembles from the Far East and the West Indies and America and elsewhere. They can bring those goods into the Hamburg free port. There they can, to use a common expression, manipulate them in any way that they choose. They may assemble goods so as to afford a full cargo for vessels going to other ports of the world and it is a very profitable business; so much so that Copenhagen imitated it, and the free port of Copenhagen likewise was doing, when I made that study, which was a good many years ago, a very profitable business.

Personally, I do not see that free zones would mean a great deal to this country at the present time. There is not enough business that is essentially characteristic of a free zone, which is, as the chairman said a while ago, a transshipment business. You bring goods in from one foreign country and send them to some other foreign country.

Now, there is some point, and some business may be developed thereby, in having places where you can assemble enough goods from different places to give a ship a full cargo when it wants to go somewhere else. We might, in the course of time, develop some business along this line. But anything that we want to send to Canada can

and does go in bond. If we want to send Japanese or European goods to the West Indies or to South America, we might perhaps have some little business in collecting them in New York or Norfolk, where the Representative who just testified comes from, and assemble a cargo there which would make it worth while for a ship to go from one of those ports to Cuba or to Central or South America. But there would not be a great deal of business in that direction now.

I see no objection to free ports; I repeat that. The danger of smuggling is negligible. As to this matter of blending, et cetera, all the blending that we can do as between imported goods and domestic goods would probably be of benefit to American industries. Mr. Watson asked a question having to do with blending fruit with sugar. I think that it would be welcomed by all the fruit growers of the United States, in order to facilitate that business, if they can facilitate it and export a little more fruit to foreign countries, by saving the sugar importer the necessity of making a bond or paying this duty and then taking chances on getting a drawback and all that sort of thing. It would save the interest on the duty that he has had to pay. It would be a good thing.

We have made our drawback system and warehouse system, et cetera, somewhat more workable now than they were when I wrote that report, some 14 or 15 years ago. But even now the people who have to use those facilities a good deal find that they are cumbersome and somewhat awkward, and it would perhaps help them a little in their business to be free from these expenses and delays and worries and the red tape, and all that sort of thing. It would facilitate their business somewhat, though, under the improved regulations, not as much as would have been saved if Congress had considered this bill favorably 14 years ago. The chief benefits to be expected from free zones I have enumerated in that report that I made years ago and they remain now in a somewhat milder form the same as they were then.

Mr. McCORMACK. Briefly, what are those?

Mr. PAGE. Well, it is rather difficult to cite them briefly, Mr. Chairman.

But it does, as I have just said; relieve the men who are interested in foreign trade a good deal from the necessity of making bond, paying interest on duties, losing that 1 per cent that they lose in the drawback, shipping the goods from the port to some bonded warehouse, and then having to return them. If all that kind of business can be assembled and transacted in one place, it would be a saving.

Mr. McCORMACK. The competition, then, for the world's market is very acute throughout the world.

Mr. PAGE. So far as I know. So far as there is any business, there is tremendous competition for it.

Mr. McCORMACK. What effect would the elimination of the necessity of going through the procedure of drawback, paying the duties, and those other incidental expenses have upon the ability of American industry to more successfully compete in the world market?

Mr. PAGE. Oh, it would give it some aid. It is probably well known to you gentlemen that the drawback has not amounted to very much except for the sugar industry, and I think the lead industry. Unless conditions have changed greatly—

Mr. McCORMACK (interposing). What are the figures on that?

Mr. Dow. During the calendar year 1931 we paid out \$3,149,000 drawback on sugar; \$1,619,000 on linseed oil cake. The imported material was flaxseed.

Mr. PAGE. Flaxseed?

Mr. Dow. From the Argentine. Canned fruits, \$422,000.

Mr. PAGE. That was the sugar in the canned fruits.

Mr. Dow. Yes. We paid out \$746,000 on motion-picture films.

Mr. PAGE. That was a new development since the writing of my report.

Mr. Dow. And \$441,000 on rayon piece goods.

Mr. PAGE. That also is a new development.

Mr. Dow. Those are the principle items.

Mr. PAGE. You will observe, gentlemen, that these are rather highly specialized industries, most of them, with the exception of sugar, and that accounts for, I should say, fully two-thirds, if you include that in the fruit.

Mr. Dow. We paid out a total of about \$12,000,000 in drawback.

Mr. PAGE. As much as that?

Mr. Dow. Yes.

Mr. McCORMACK. What did you pay out in 1929?

Mr. Dow. This is the fiscal year, 1929, \$13,666,000; for 1930, \$14,444,000; 1932, fiscal year, \$11,455,000.

Mr. PAGE. The matter of collecting the drawback used to be, and I imagine still is, attended with considerable expense to those who want to take advantage of it. They have to have specialists—lawyers, that know how to make the collection. They have to go to considerable additional expense, in the managing of their industry, so as to be able to prove that the goods exported are of foreign manufacture and so on.

Mr. WATSON. Would that 1 per cent of the drawback pay this additional expense?

Mr. PAGE. The expense of what? I am talking about the expense to the people who collect it, not the expense to the Government.

Mr. WATSON. The expense of collecting the drawback?

Mr. PAGE. I mean the expense to the people who would receive the drawback; the expense that they have got to incur in order to collect from the Government.

Mr. WATSON. One per cent of the drawback would pay all the expenses of the Government.

Mr. PAGE. So far as I know. I imagine that is why it is kept on there. I don't know whether it would pay the expenses of the Government or not. Mr. Dow, I imagine, could answer that question.

Mr. Dow. We paid out \$11,455,000. One per cent would be \$114,000.

Mr. VINSON. Of course, that 1 per cent would simply apply to the drawing down of the drawback.

Mr. PAGE. That is expense to the Government. I was not referring to that, however. I was referring to the fact that it is somewhat expensive to the people who are entitled to the drawback to collect it. And they lose the interest.

Mr. WATSON. If they hold the commodity they lose the interest and the amount of duty paid.

Mr. McCORMACK. And the use of the money, too.

Mr. PAGE. Yes.



Mr. VINSON. Now, Mr. Chairman, I would like to have Mr. Dow answer the question that was propounded to him. He was asked if 1 per cent would cover the administrative expense due to drawback.

Mr. Dow. I would say that would cover it. We have to pay the salaries of our customs agents who go out and investigate the factory in the first instance, and traveling expenses. I would say that would cover administrative expenses.

Mr. PAGE. In the meantime, you realize the people who are receiving the drawback are losing the interest on \$12,000,000 for a certain length of time, and they are incurring, I repeat, considerable additional expense in making their claims and putting them over to the Treasury Department, and there is considerable delay and cumbersomeness in the whole matter. But it works better now than it did 15 years ago.

Mr. McCORMACK. You referred to conditions in Europe, relating to Hamburg and Copenhagen, with relation to the interior of the country?

Mr. PAGE. Yes.

Mr. McCORMACK. That condition existed when you made your report in 1919?

Mr. PAGE. Certainly.

Mr. McCORMACK. So that you had that in mind at that time, and the fact that the same condition exists to-day would not affect your position with reference to the fundamental question.

Mr. PAGE. Not in the slightest.

Mr. McCORMACK. But you would change your position, due to the change in world conditions? That is, you have modified your position somewhat in view of the change in world conditions?

Mr. PAGE. I have not changed my position, as you say.

Mr. McCORMACK. I said modified.

Mr. PAGE. I repeat that I don't think the establishment of free zones in this country, under existing conditions, would be as helpful to the United States as they would have been 15 years ago, because there is so much less trade. And at that time, you gentlemen remember, probably more distinctly than I do, how crowded all our ports and all our terminals were. You remember that goods had to be unloaded and thrown out on the street, and there was a great deal of spoilage and damage and so on, because there were simply not the facilities for handling the commerce, the enormous quantities of goods that we shipped abroad and received from abroad. Now, all that has changed.

Mr. McCORMACK. I know, but you will agree with me that in the consideration of legislation to-day that we should not view it from existing conditions. Let us hope not. On the other hand, you would not be justified in viewing it from the point of view of conditions that existed in 1929, 1928, or 1927. But we ought to view it from what we might reasonably consider to be the normal world trade, when we get back to normalcy again.

Mr. PAGE. In general, Mr. Chairman, I think that is true. At the same time I ought to remind you that since the period when I prepared that report there has been, due to private enterprise, a very large development of our port facilities. Those of you who live in the ports realize that. Owing to the growth of commerce our people went to work to meet the needs of the situation, and we were able in

1928 and 1927 and along there to handle a commerce that was almost, if not quite as great as it had been in 1919, without the necessity of free zones, because of the growth and expansion of the facilities at our ports.

One of the chief arguments 15 years ago was that the existence of a free zone would immediately and greatly expand the facilities for carrying on our commerce. We didn't get them then. In the meantime those facilities were expanded in other ways by private capital and enterprise; and I imagine in most of our ports now they have got more facilities than they have commerce to use them on.

Mr. McCORMACK. What I want you to state for the record, for the benefit of the subcommittee, is your definite position to-day. Do you or do you not to-day favor legislation of this kind?

Mr. PAGE. I generally favor the legislation, Mr. Chairman, as a means of enabling the port cities to develop those facilities, if and when the time comes that they need them. This isn't anything, as I understand it, more than permissive legislation. It doesn't compel these cities immediately to go to work and put in these facilities.

Mr. VINSON. Wouldn't competition do that?

Mr. PAGE. Well, free zones have these incidental advantages that I have pointed out. If the city of Norfolk, that the gentleman here from Virginia represents, can raise the money and establish a free zone there, subject to government plan, in the first place, and inspection in the second place, I see no objection to them going ahead with it.

Mr. VINSON. Wouldn't they be forced to go out and get the money, even at a sacrifice, say, if New York had a free port? If New York had a free port, what position is Boston going to be in without a free port?

Mr. PAGE. If I thought that the free port would affect our commerce very much, I should say that New York would have an advantage, unless Boston likewise chose to have a free port.

Mr. VINSON. Consequently, Boston would, of necessity, have to go out—whether they, as an original proposition want it at this particular time—they would have to go out and meet the competition of the free port of New York.

Mr. PAGE. The chances are that for some years to come—I don't know how long; I hope not very long—but for some years to come the people of Boston would recognize that the people of New York were not making interest on the money they had put into this free port, and it wouldn't give any very great practical advantage to New York. If and when we have again a tremendous commerce, I think it would be well to let these particular cities know that if they choose they may have free ports, subject to regulation—I might say I haven't read this bill. I don't know just what the provisions are. Therefore, I shall have to say subject to proper regulation in regard to the area and the methods of guarding the port, and qualifications with regard to health and inhabitants of the zones and things of that kind, I see no objection to letting them have it, if they want it.

Mr. WATSON. Mr. Page, you will recall back in 1919 the protectionists had a pretty strong hold on this committee.

Mr. PAGE. Yes.

Mr. WATSON. And one of the objections, as I recall, was that a free zone established along the coast would be a disadvantage to the



manufacturers that were in the interior. That was one of the objections, as I recall it.

Mr. PAGE. It was. I remember it very distinctly. I expressed the opinion at that time that the danger of any such competition as that was greatly exaggerated. Wherever any industry is established along some new lines, necessarily there is some competition with the industries that are already being prosecuted along established lines. That is inevitable, but as for any serious competition between any business that can be done in a free zone, such as contemplated in any of these bills, and any of our interior industries, the danger of competition, I think, is negligible.

Mr. WATSON. These free zones probably would have no effect whatever upon the protective policy.

Mr. PAGE. I can't see that it would have the slightest effect.

Mr. WATSON. That was one of the great objections of the strict protectionists.

Mr. PAGE. Yes, I remember that.

Mr. VINSON. Mr. Page, if any decided advantage comes to those who operate in the free zone, why wouldn't that affect their competitor that didn't have the advantage?

Mr. PAGE. Mainly for this reason; that any advantages that come to them, come to them in a business that is now not transacted in this country at all. It would be in the main mostly new business and not business that was going to compete with some established business over here. It is with a view to enabling our ships and merchants to get a little additional business that we do not get now at all, and do some work in carrying goods from this country to other parts of the world, which are assembled over here. That business now, or very little of it, is done.

Mr. VINSON. Let us take the blending business, domestic and foreign. I haven't any particular one in mind. But we will just assume we have a business here, and say it is inland, that blends products and ships into the world trade.

Mr. PAGE. Yes.

Mr. VINSON. Now, we have the free zone. That foreign product comes into that and is blended. There is also the domestic product. Don't you think that would give a material advantage to that business over the domestic?

Mr. PAGE. Yes; some advantage. But after all, when you remember that this business of blending foreign products and shipping them out of this country, with but few exceptions, is a small business at present, and where it was not a small business it could continue to be carried on and could compete successfully with any similar effort in the free zone, I think you will realize that what I have come to regard as a limited amount of business that the American free zone could get would be in the main new business and not business that could compete with an established enterprise in the United States. I have got to admit that that is mainly opinion on my part, and it is based upon the supposition that most of the work at this free zone is going to be just the assembling of things, putting them into convenient form for reexport, bringing them together in such a manner as to give a full cargo to a ship, instead of taking a chance and sending a few packages of something in a ship that is going somewhere, and so on. I think it would encourage our shipping somewhat, because it would be easier

to assemble a cargo, say, for Rio, or some other South American port. If we could have some Japanese goods and some English goods and some other goods and combine them with American pianos and what not, and have a free zone where men could bring those things in and put them there in a warehouse, without having to pay duty on them, or without having to go to the expense of putting them in a bonded warehouse and that sort of thing, it would be some advantage. Not anything like it would have been 15 years ago, because of the decay of commerce since that time. But so far as it affects trade, where it would have any effect, I think it would be good. And on that ground I am, on the whole, in favor of permissive legislation.

Mr. McCORMACK. But you are not enthusiastic about it now.

Mr. PAGE. Just because I don't think there is enough business to make the thing particularly profitable, and I must say that I doubt somewhat whether they would be able to raise capital from private sources in many of our cities.

Mr. McCORMACK. Why should the States or the cities, at the expense of the taxpayer, incur the capital investment?

Mr. PAGE. Why shouldn't the municipality, you mean, instead of private enterprise, install the free port and equip it and so forth? Is that your question?

Mr. McCORMACK. Exactly.

Mr. PAGE. I see no objection to it, if the municipality wishes to do it.

Mr. McCORMACK. I said why should the State or municipality incur the capital investment.

Mr. PAGE. I see no reason why it should be done by them, rather than by private corporations.

Mr. McCORMACK. If business men in the port of Boston figure it would assist them, why shouldn't they make the investment? Because with the investment goes the responsibility of trying to make it a success, and assurance of permanent interest.

Mr. PAGE. I see no reason why either one that prefers could not do it.

Mr. McCORMACK. We have too many so-called public projects, financed by local government, which are now burdening the taxpayers.

Mr. PAGE. I feel absolutely convinced, and I think you do likewise, Mr. Chairman, that you would not find any State or municipality in the United States now that is going to appropriate money out of the public treasury for the purpose of installing a free port.

Mr. McCORMACK. And the same would apply to a State or municipality.

Mr. PAGE. I say you couldn't find a State or municipality that is going to put money into it. If you raise money for it at all, I think it would have to be by private subscription, by corporations.

Mr. McCORMACK. And the field of reasonable and fair and proper competition would be preserved to the several ports on our coast line.

Mr. PAGE. Yes.

Mr. McCORMACK. If that were done, and it would then be left to the private capital.

Mr. PAGE. Yes.

Mr. McCORMACK. Boston, for example. The legislature might authorize the city of Boston to do it, and they might appropriate five, ten, or fifteen million dollars, and Norfolk might not be able to do it; and yet that capital investment might not be warranted.

Mr. PAGE. There is always that question of port competition. It has been one of the problems of our transportation legislators from time immemorial. How can we regulate transportation in such a way as to be perfectly fair and just as between Boston and New York, and Norfolk and Savannah and New Orleans and other ports? You are familiar with the great difficulties we have had. It was the competition and the jealousy and the differences that arose as amongst our cities that was one of the prime reasons for the creation of the Interstate Commerce Commission when I was a boy, back in 1887. It didn't do much work until the twentieth century began, when it was reorganized.

Mr. CROWTHER. Right at that point, Mr. Page, I read the report which you made. It is very comprehensive and very elaborate. I think at that time there was some question raised as to the constitutionality of the procedure.

Mr. PAGE. Yes.

Mr. CROWTHER. There was reference made to Article IX, in section 1 of the Constitution, that no preference shall be given by any regulation of commerce, or revenue, to the ports of one city over those of another.

Mr. PAGE. Yes.

Mr. CROWTHER. I think that point was made at that time, if you remember.

Mr. PAGE. Yes.

Mr. CROWTHER. I want to call your attention to just one short statement you made:

I was about to say, Mr. Chairman, that one of the greatest advantages we ask for from the establishment of these free foreign trade zones, which is a better term for them \* \* \* since the word "free" carries the implication that the fiscal policy is involved, and the implication in the main being that we use the expression "free trade" as a synonym for low tariff, and I think in your report you suggest they be called neutral zones. One chief advantage to be expected in my opinion is the enormous addition which will be made to our out of date and inadequate port and harbor facilities, which it has been found almost impossible to scrap and that no longer serve any useful purpose.

That was in the evidence you gave here.

Mr. PAGE. That was what I was alluding to here a moment ago.

Mr. CROWTHER. But there has been a remarkable advance in our port and harbor facilities in that 14 years, has there not?

Mr. PAGE. Oh, yes.

Mr. McCORMACK. You conveyed to me the impression that the most important function of a port of this kind to perform would be on the transshipment. In what way? Would you elaborate just a little on that, as to how it would be an advantage to American industry, and thereby to American labor?

Mr. PAGE. I don't know that there would be any advantage to industry in a technical sense, if by that you mean manufacturing.

Mr. McCORMACK. In what way would it be of benefit?

Mr. PAGE. I shall have to repeat much of what I have said already, Mr. Chairman; that it would make it possible for American merchants and dealers to assemble in a definite place commodities from other

countries, sort out those and put those together that are going to some particular country, and in that manner make up a cargo for a ship which would make it worthwhile to send a ship to that country.

Mr. McCORMACK. What do they do now in that business? Where do they have that done now?

Mr. PAGE. Most of it is done abroad.

Mr. McCORMACK. Would you think if we have free ports it would bring it here?

Mr. PAGE. We have a little of it, but it is very difficult.

Mr. McCORMACK. Do you think that particular field of activity would be increased if there were free ports?

Mr. PAGE. I think so.

Mr. WATSON. As such a large amount of sugar is imported under the drawback system, if we establish the zones, wouldn't foreign sugar come in without duty? Wouldn't that be a differential against sugar produced in the interior, in America?

Mr. PAGE. I don't think so, Mr. Watson. I think it might be a good thing for our ships to have the sugar brought to this country and then reshipped to England, instead of having it shipped direct from Cuba to England or some country of that kind. I don't see how it could in the slightest degree interfere with our refiners or growers. It would simply develop in this country a little additional business that we do not have to-day. That is the main argument for it.

Mr. McCORMACK. Take, for example, the Revere Sugar Refinery, located up in metropolitan Boston, representing a tremendous capital investment. Do you think it likely that they would move their business into a free port zone for the purpose of doing all their refining, the greater part of which is for consumption in the United States, just to obtain the benefits relating to drawbacks and so forth?

Mr. PAGE. It would be out of the question. They could not and would not do that. Of course, they couldn't establish a refinery within the zone for two reasons; one is, as has just been pointed out, sugar refining is regarded as being a branch of manufacturing, and unless you add to your bill that manufacturing is permissible, they couldn't do it, but there is another and still more potent reason; they couldn't afford to pay the rents necessary to establish the sugar refinery in the free zone. Rents in an area that is surrounded by a proper fence, and guarded by Government agents, and so on, will be prohibitive for anything except a very highly specialized business. You could not expect people to go there with any big manufacturing enterprises. They couldn't get inside. It would be physically impossible. I don't remember the exact size of the port at Hamburg. It is the busiest and most important in the world, but it is along the river bank there, and the rents within that area are very high as compared with any thing outside.

Mr. WATSON. Wouldn't sugar from Cuba, without duty, bring a lower price at the port of New York than domestic sugar landed at the port of New York?

Mr. PAGE. It couldn't be sold in New York at all, Mr. Watson.

Mr. WATSON. What couldn't be sold?

Mr. PAGE. It couldn't get out of the zone without paying the duty.

Mr. WATSON. The sugar that is imported would be exported out. The commodity with which the sugar is mixed could be exported without paying a duty.

Mr. PAGE. You mean wouldn't it sell at a lower price abroad?

Mr. WATSON. I mean sugar landed in New York, through Cuba, without duty would be cheaper. It could be bought cheaper than sugar landed in New York from any part of the United States.

Mr. PAGE. Bought cheaper by whom?

Mr. WATSON. By the purchaser.

Mr. PAGE. If it is a domestic purchaser it couldn't be bought any cheaper than he could buy the other sugar.

Mr. WATSON. I say he could buy the Cuban sugar cheaper than domestic sugar if there is no duty on it.

Mr. PAGE. No; he couldn't.

Mr. WATSON. Why not?

Mr. PAGE. Before he could get it in the country he has to pay the duty.

Mr. WATSON. But I understand in a free port he could bring the sugar in and manufacture it; he mixes it and then exports it.

Mr. PAGE. Yes; in the free zones.

Mr. WATSON. He couldn't buy American sugar, landed in New York cheaper than he could buy the Cuban sugar, without duty.

Mr. McCORMACK. What Mr. Watson has in mind there, and the thought in my mind is, the removal of the differential so far as the import of Cuban sugar into the free zone is concerned would give it a preference over the domestic sugar.

Mr. PAGE. I can't say that I understand Mr. Watson's question.

Mr. WATSON. What is a pound of sugar worth?

Mr. PAGE. What sort of sugar?

Mr. WATSON. Sugar that is mixed with fruits, for example. What is that sugar worth in New York, without any duty upon it?

Mr. PAGE. I can't tell you that.

Mr. WATSON. It certainly would be lower than domestic sugar, because we have the duty to protect the domestic sugar.

Mr. PAGE. I don't know the price.

Mr. WATSON. And of course there would be a differential in favor of the foreign sugar. I asked that question yesterday of the representative of the Commerce Department and he acknowledged there would. I wanted to get that fact emphasized here by the representative of the Tariff Commission.

Mr. PAGE. I would be willing to acknowledge, Mr. Watson, that the price of sugar would be lower if there were no duty on it than it is with a duty on it. But the domestic consumer in New York can not get his sugar in the free zones until the duty is paid on the sugar.

Mr. WATSON. He can enter the free zone with it, can he not?

Mr. PAGE. No, sir.

Mr. WATSON. He can't under the drawback, but under this free zone, he could, provided he exports it. If he doesn't export it, of course he has to pay the duty on it.

Mr. PAGE. And that is one of the advantages of the free zone.

Mr. WATSON. And a disadvantage to the American-grown sugar.

Mr. PAGE. How much American-grown sugar do we export, Mr. Watson?

Mr. WATSON. If I can buy sugar cheaper in Cuba than I can in the United States, I am going to buy sugar there, in order to mix with my fruits, or whatever it may be, and export it, because it is

to my advantage. If it is to my advantage to use foreign sugar, why would I buy domestic sugar?

Mr. PAGE. Well, you couldn't, because you can't bring it into this country. You can't buy it and get it into this country cheaper than you can get domestic sugar.

Mr. WATSON. Without duty?

Mr. PAGE. So far as the bringing of sugar into a free zone, the man who gets it there doesn't have to pay the duty.

Mr. WATSON. Correct.

Mr. PAGE. But if he is going to export it to some other country. God bless him. Let him do it. But he can't bring it into this country unless he does pay the duty.

Mr. WATSON. But then he will use foreign sugar if it is cheaper rather than use domestic sugar.

Mr. PAGE. Mr. Watson, did you ever know of any domestic sugar being exported from the United States? Do we export any Louisiana cane sugar or any Western beet sugar from the United States?

Mr. WATSON. That is not the question. The question is if you get Cuban sugar free of duty, it is to the advantage of the operator in the free zone, over the domestic sugar, if he has to pay more for it.

Mr. PAGE. Why not say, "God bless him." Let him have that advantage.

Mr. WATSON. What is going to happen to the domestic producer?

Mr. PAGE. It is going to help the domestic grower of sugar that much, to have the sugar exported to this country and sold abroad, instead of having it sold from Cuba abroad. It is going to give us a little extra business. How on earth you can think that business could affect the domestic sugar grower I can't imagine. There is no possibility of it affecting him.

Mr. WATSON. If they use foreign sugar instead of domestic sugar, why wouldn't that be a disadvantage to the grower of domestic sugar?

Mr. PAGE. Who is going to use it? We don't send any domestic sugar abroad. We use every bit of it and more besides in this country.

Mr. WATSON. The question is whether foreign sugar can not be delivered at New York cheaper without duty than domestic sugar.

Mr. PAGE. I think that question answers itself, Mr. Watson.

Mr. WATSON. Well, I would like to know.

Mr. McCORMACK. I would like to get my mind cleared up on that. My understanding of the situation is that foreign sugar, coming in here, under the present law, has to pay the full duty. The only advantage I can see, and I would like to be corrected if my viewpoint is wrong, is that in a free port the necessity of paying the duty in the first instance, where it is for reexport would be done away with, and the drawback provision would not apply.

Mr. PAGE. Yes.

Mr. McCORMACK. Under the present law, if you import it you pay \$2.12 per 100 pounds on refined sugar, as I understand it; \$2.14 on the raw sugar for 107 pounds, or something like that, and when you reexport that you get back 99 per cent of the duty you paid, so that the differential, whatever would exist, would be one one-hundredth of 2.12 cents for each pound of sugar that is imported. Is my understanding correct, so far as you know?



Mr. PAGE. I am not sure I followed that, so far as your figures go, accurately, but it seems to me that substantially you are correct.

Mr. McCORMACK. So that for all practical purposes sugar coming in now from outside to be reexported is duty free.

Mr. PAGE. Except for the delay in collecting the drawback, and interest on your money.

Mr. McCORMACK. For all practical purposes.

Mr. PAGE. Yes. Mr. Watson pointed that out a while ago. That is quite true. The only effect that this free zone would have on the sugar trade, if Mr. Watson will permit me to sum up a little what I have said, is this; that it is conceivable—I don't think myself it is very likely—but it is conceivable that there might be some sugar imported, brought into these free zones, from Cuba or Java, or somewhere else, then at some convenient time sent abroad, that has nothing to do with our domestic sugar growers whatever, because we don't export any domestic sugar. What we export, as the chairman has pointed out, is foreign sugar that is brought in here, with the exception of the 1 per cent and the delay and loss of interest and cost of the drawback system, that is on a free-trade basis, and the only effect that the free zones would have would be to save a little bit of that difficulty. Does that answer your question, Mr. Watson.

Mr. WATSON. Of course I understand the sugar is exported, but my thought was that if the operator in the free zone could buy American sugar cheaper than he can buy Cuban sugar or foreign sugar, that he would use American sugar. But he will use the foreign sugar, because it is cheaper delivered at the free zone. Of course we don't export. I understand that. That is my thought on it.

Mr. PAGE. I can't see, as I said a moment ago, how this transshipment trade in sugar, which I think would be very limited anyway, could affect the American sugar industry. There would hardly seem to me to be much sense in anybody importing Cuban sugar to New York and then sending it from New York to Europe or South America or somewhere else.

Mr. WATSON. They do import now 35,000,000 pounds to be used, under the drawback system.

Mr. PAGE. That is for domestic use. We import that and consume it ourselves, and mix it in our factories.

Mr. WATSON. And if we send it away, there is no duty on it except this 1 per cent.

Mr. PAGE. It wouldn't be sent away in that form.

Mr. WATSON. One hundred and twenty-five million pounds are brought in under the drawback system and if it is exported, there is no duty on it.

Mr. PAGE. That is not exported, for the most part, in the form in which it is brought in. That is exported usually in the form of candies and fruits.

Mr. WATSON. And condensed milk. There are 6,000,000 pounds of sugar used in condensed milk, and 166,000 pounds of sugar in butter, and this whole list makes a very large amount of sugar.

Mr. PAGE. That is quite all right, and I think we ought to be glad American industries can still flourish. They can't buy any of this Cuban sugar out of the free zone on any easier terms than they can get it in the ordinary channel, because they would have to pay a

duty just as if they imported it direct from Cuba. There wouldn't be a single iota of advantage to the condensed milk people or the candy manufacturers and so on, in dickering with a dealer in a free zone for his sugar, instead of buying it as he now buys.

Mr. McCORMACK. If they had to pay a duty and could not get the drawback they could not compete in a foreign market, with the manufacturer of similar product in other lands.

Mr. PAGE. I assume that if sugar would come in from the free zone that it would be entitled to the drawback, but you must remember that before the American manufacturer can use this sugar from the free zone he has to pay the duty on it, just as he does now. In addition to that he will have some additional costs. He will have to pay the cost of warehousing and storing the sugar in the free zone, and the additional drayage costs and other expenses. It costs him more rather than less to get his sugar out of the free zone than it would to get it in the ordinary established channels. I don't regard myself as being an expert on these commercial matters, Mr. Chairman, and while I try to answer as well as I can, most of what I tell you has got to be rather general.

Mr. McCORMACK. We thank you, Mr. Page, and we assure you you have been of assistance to the members of the committee.

Mr. McCORMACK. Mr. Chalmers, of the Department of Commerce.

#### STATEMENT OF HENRY CHALMERS, CHIEF, DIVISION OF FOREIGN TARIFFS, DEPARTMENT OF COMMERCE

Mr. CHALMERS. Mr. Chairman, my appearance is in the interest of the additional foreign trade that we believe free ports, or foreign trade zones, would bring to the United States. I want first to present a brief formal statement on behalf of the department on the advantages of the idea of foreign trade zones, and will follow that with informal comments on the particular bills under consideration, and on some of the questions that have been raised in the course of the earlier discussion that I have listened to.

The Department of Commerce has long been impressed with the fact that, compared with the other major commercial nations, the re-export and transshipment trade of the United States is remarkably small in volume, even when account is taken of the difference in the geographic location of the United States and the major countries of Europe. The department has, therefore, been pleased to give its indorsement, in principle, to various measures introduced into Congress in recent years which propose to authorize the establishment of foreign trade zones in the ports of the United States on the part of local authorities or groups.

While it can hardly be expected that there would be developed in the United States as extensive operations of this character as are now found at Hamburg and certain other so-called free ports of Europe, it is our belief that, if properly located with regard to the currents of trade and planned in the light of the volume of business that may reasonably be expected to develop for them at given ports, foreign trade zones may be of material benefit to this country. They should not only aid in the expansion of our export and transshipment trade, but should make possible the fuller and more effective utilization of our merchant marine.



Foreign trade zones are, in principle, but an extension of the system of bonded warehouses and drawback now provided for in the American tariff law. The customs administrative regulations have, indeed, been so liberalized, in the course of recent tariff revisions, that most of the activities relating to the manipulation of merchandise contemplated by the original project for foreign trade zones may now be carried on in bonded warehouses without requiring the payment of duty. However, they are necessarily so encumbered with customs regulations, such as the filing of manifests, making formal entry of all foreign merchandise whether intended for ultimate entry into the country or not, having the goods weighed or otherwise examined before they are allowed to be deposited in bonded warehouses, arranging for the placing of the bond and its later release, and for the final formalities of actual withdrawal of the goods from bonded warehouses for reexportation, that the privileges available are not sufficiently attractive to be used to any large extent. At least they have not been so used. Essentially it is the minimizing of the official limitations and costs involved in the present formalities and control that is contemplated by the proposal for the authorization of foreign trade zones.

Moreover, the proposal has cogency in connection with the efforts to assist the American merchant marine. In so far as such foreign trade zones would create larger transshipment business in American ports, they should help to secure larger and more balanced cargoes for ships in the American trade. Inward cargoes should be attracted in larger volume, since foreign goods could so easily be deposited in these customs-free zones, without waiting for the usual customs documents and formalities. In turn, these goods would afford larger, more balanced, and more readily available outward cargoes, particularly for ships bound for other ports on the American Continent. In addition to the increased freight revenue and reduced operating costs for the ships involved, the quicker turn-around possible in these customs-free zones should afford some savings.

It is believed that the desirable objectives which the authorization of foreign trade zones would further can be attained without weakening the effectiveness of any import duties which Congress may consider necessary for the protection of domestic industries, and without appreciably affecting the national revenue from the customs.

There have been a number of questions that have come up that I may want to discuss. First let me say a word about the two bills. I believe there is an advantage, when a country is first attempting a new type of trade arrangement, in starting with a specific rather than a general law. I am speaking personally now as one who has given considerable study to matters of foreign trade. For that reason I believe the committee would be well advised to base its consideration upon the Celler bill, which is more precise, rather than the Welch bill, which carries simply a general authorization, and leaves room for possible questioning on the part of merchants and ports as to what procedures and rights they can figure on, and on the part of administering officials as to what conditions they can insist on. I believe you will agree that a more specific bill is advantageous in inaugurating a system of this kind, both for the merchants and for the Government.

This bill represents a refinement of various attempts in the past in the way of proposals for the authorization of foreign trade zones.

It has this outstanding advantage, I am speaking now to the Celler bill, and will hereafter, that it involves no material additional cost on the part of the Federal Government, either for the establishment or the maintenance of any such foreign trade zones, beyond a small charge for the examination of the proposals at the outset and the supervision incidental to their operation. You will note that it is clearly permissive legislation, allowing the Government to authorize municipalities or public corporations, if they think that there is enough business to warrant their putting money into such a project, to start it.

Mr. VINSON. What do you think about the conditions?

Mr. CHALMERS. As Doctor Page has well pointed out, the condition of our international trade and the volume of traffic moving have changed considerably since the idea was first started in this country some 15 years ago, but we do not expect, do we, that we are forever going to continue at the present level?

Mr. VINSON. I didn't ask you that. I asked you what was your opinion as to whether this was good economic policy.

Mr. CHALMERS. I believe it would be good economic policy to have permissive legislation of this type.

Mr. VINSON. I am talking about the business industries of this country taking it up and putting it across.

Mr. CHALMERS. That would be up to each port that has expressed interest in it.

Mr. VINSON. Have you any opinion as to what good business men would do in that respect?

Mr. CHALMERS. At the present moment they probably would not flock to Washington and ask for permission.

Mr. VINSON. I am saying that permission is granted, and they have the right to go out and try to raise the money. What is your opinion now as to whether or not they could do it?

Mr. CHALMERS. At the present time I don't believe there would be many projects of this kind started, but I believe in the principle of having permissive legislation, or authority in the Government for allowing such a venture, if and when local authorities or bodies believe that there are gains to be made in the way of expansion of commerce and greater use of shipping.

Mr. VINSON. Are you particularly concerned with the question of revenues that the Government is getting now from the customs?

Mr. CHALMERS. No; I don't believe it enters into the picture, for the simple reason that all the goods entering into consumption in the United States, whether they come in directly, or whether they come through the free zone, would pay the regular duties established by law.

Mr. VINSON. You don't think there would be any loss in revenue if we extend these foreign-trade zones?

Mr. CHALMERS. I do not. As a matter of fact, it is conceivable there may even be an increase. If, for instance, a firm should bring goods into a free zone, with the idea of reexporting it, which would be the principal reason for using that facility, otherwise it means double handling, and do something to it, sort it, refine it, repack it, while the goods are in the free zone, and then decide it is better for them to send the goods into the United States, they probably will have to pay a higher duty, a larger amount, to the customs,

because the goods have been advanced in condition or in value. So that if anything, there would be an advantage, although I don't expect that that would happen very often.

Mr. VINSON. Of course, what I had in mind was the smuggling end of it. Have you given any consideration to that?

Mr. CHALMERS. Yes, I have. I have had occasion to observe operations of this sort abroad, and I don't think that we need fear our being able to be less vigilant than the customs officials of foreign countries. I wish you could examine, at least, pictures of the physical lay out of the free zones, or free ports, in the various foreign countries. They are in the volume on this subject issued several years ago jointly by the Shipping Board and the Army Engineers.

Mr. VINSON. What is the area of the free port at Hamburg?

Mr. CHALMERS. I can find out for you in a minute. It is a long stretch of land out toward the end of the peninsula. It contains quite a number of acres. I can't tell you how many.

Mr. VINSON. That is what I want to get. We want some information.

Mr. CHALMERS. I can give you the precise information in a moment from this volume that I just spoke of. If it is not available to the committee, it can be made so and it gives all that information about foreign free ports.

Mr. VINSON. Can you find it there in just a minute or two?

Mr. CHALMERS. Yes; if you like.

Mr. VINSON. Hamburg and Copenhagen.

Mr. CHALMERS. "Copenhagen, land area, 128 acres, water area, 102.5 acres. The area of the free port at Hamburg is 3,340 acres, of which 1,500 are land and 1,840 are covered by water." Does that give you the idea?

Mr. VINSON. That gives me a very distinct idea.

Mr. CHALMERS. First you should visualize these free zones as usually segregated from the main ports. It is conceivable otherwise, and I have seen it done in places like Genoa, where the port area is very tight, fully developed through the years. There they have actually taken certain wharves, or a few docks, and tried to convert those into limited free zones. In general, however, the free zone is a segregated area at some distance from the main activities of the port, which in itself gives you a check against any sizeable smuggling. Moreover they are protected by walls that are usually topped by barbed wire on the land sides, and the usual safeguards that there are in any port on the water side. It is much easier, I should say, to steal goods off the open wharves in any of our ports than it would be to steal them from a free zone compound.

Mr. VINSON. What other free ports have you studied abroad?

Mr. CHALMERS. I haven't made a special study abroad of free ports. I have seen some of them in the course of my travels.

Mr. VINSON. At Hamburg they manufacture, don't they?

Mr. CHALMERS. A limited amount of manufacturing.

Mr. VINSON. What is your viewpoint of the right to manufacture in free ports in this country?

Mr. CHALMERS. In principle, I believe that it might be an advantage. At the present time, and when the project is so new—

Mr. VINSON. At the present time you don't think it is feasible?

Mr. CHALMERS. In the initiation of a project of this character, I believe it would be advisable not to complicate the situation by providing for manufacturing to be done in the free zones. Keep it a transshipment area.

Mr. VINSON. But in the back of your head you have got the thought that subsequently you might enter upon manufacturing?

Mr. CHALMERS. That would be up to Congress to decide.

Mr. VINSON. Certainly, but I am talking about your notion about it.

Mr. CHALMERS. I have no particular notion about that. You asked me objectively what is the economics of the situation, and I say I believe that eventually, if there were commercial call for it, there is no good reason why manufacturing might not later also be authorized.

Mr. VINSON. Why was it left out?

Mr. CHALMERS. I didn't draw the bill, Mr. Congressman, but I can imagine why it was omitted from this.

Mr. VINSON. What is your imagination about it?

Mr. CHALMERS. All this is quite informal. I imagine it was taken out in order not to handicap Congress in its consideration of the idea. You have got two separate functions there.

Mr. VINSON. Wherein would it be a handicap; that is what I want to know.

Mr. CHALMERS. In the earlier discussions of the free-zone bill, the objection was centered largely on the manufacturing provision.

Mr. VINSON. What were those objections?

Mr. CHALMERS. As I recall the objections, they were that it would weaken in some way the protective value of the tariff, and it might constitute unfair competition with manufacturers located in the interior who did not have easy access to this area. I don't think it is essential to discuss that point, because that is not provided for in the bill.

Mr. VINSON. I just wondered whether or not, with your viewpoint, if you didn't think, personally, that it might be advisable to start it without the manufacturing end of it, and then later on permit manufacturing.

Mr. CHALMERS. Yes, and no.

Mr. VINSON. That is exactly the same answer that Mr. Hicks, who was a rather unexpected candidate for governor in a picture that I saw, made at the request of his manager. He was told to, and did, answer any question propounded to him, "Yes, and again, no."

Mr. CHALMERS. If you had permitted me one moment longer, I think that yes or no might have been amplified.

Mr. VINSON. All right, sir.

Mr. CHALMERS. I should like to see such transshipment zones—that is what they are, reexport zones—tried in the United States. Then I would be in a better position to make up my mind definitely whether it would be desirable to have an extension to include manufacturing facilities. It is a separate function.

Mr. VINSON. How do you arrive at your answer to me, when I asked you if you didn't personally think it best to start off initially without the right to manufacture, and then later on include that—how did you answer that yes and no, if you have back in your mind the thought, your own personal view, that if you initiate it without manufacturing, it would be advisable, according to your own personal views, to include the manufacturing?

Mr. CHALMERS. You would have to make considerable expansion of the free zone area.

Mr. VINSON. Undoubtedly.

Mr. CHALMERS. And considerable changes in the law and regulations.

Mr. VINSON. But what are your personal views in regard to that?

Mr. CHALMERS. My personal views are that it might prove quite an advantage, if our international trade should develop along the lines it had promised to up to 1929. There might be advantage in having facilities within such free zones for the processing of foreign materials for reexport markets.

Mr. McCORMACK. When do you think we will get back to the 1929 export trade?

Mr. CHALMERS. I wish I knew.

Mr. McCORMACK. I am confident we will, some day.

Mr. CHALMERS. I share your confidence for the long run, Mr. Chairman. That is why I feel it is not entirely out of the question to discuss this matter now.

Mr. McCORMACK. Do you think it is advisable to undertake a new project at a time when every indication is it would be unsuccessful, when under normal conditions there would be a better test of its success or nonsuccess?

Mr. CHALMERS. Mr. Chairman, the passage of this bill does not necessarily involve the initiation of any new projects at the present time.

Mr. McCORMACK. I know, but this bill confines itself to public financing. You and I know that as soon as this bill passes—or if you don't, I do—that there is going to be tremendous pressure put upon local authority in the States and municipalities, from powerful sources—and I respect them—to have this experiment made at the expense of the taxpayers, and the pressure may be such that it would be rather hard to resist, and the weight of evidence may be such that legislators and those vested with the responsibility of local government might feel that they should take the chance of acting affirmatively. I can also see, for example, where a large port might finance it, and that would indirectly compel other ports to do the same thing, to make a capital investment which the times would not warrant. Why wouldn't it be a better idea, if any legislation was passed, to put the responsibility upon business men who are interested, rather than on the taxpayer?

Mr. CHALMERS. I have no particular opinion to express on the question of whether this should be limited to State or municipal authorities, or whether the same privilege should be allowed to entirely private enterprise. From what little thought I have given to that particular aspect of it, I see no particular objection to leaving it as a purely private venture, if you wish to. But I might point out, Mr. Chairman, that the fear of municipalities having great pressure brought to bear upon them to put money into the establishment of such zones at this time, pressure of a political or other sort, is minimized by the fact that there is the necessity for first getting the Secretary of Commerce to give his permission to such a venture being started, and there are very elaborate provisions set down, and very elaborate prerequisites before the executive branch of the Government can feel there is warrant for such a permit. Under present conditions

I would say that cases would be exceedingly rare where the conditions set forth in this bill would be met by any local project.

Mr. McCORMACK. That doesn't remove the doubt in my mind, the mere fact that the Secretary of Commerce has the responsibility vested in him. He is still in a similar position to that of the local authorities. If there are any benefits to a free port, they are going to inure to the business man who is interested, primarily. That is correct, isn't it?

Mr. CHALMERS. Mainly.

Mr. McCORMACK. I used the word "primarily." It is primarily for the purpose of benefiting business and I am very much interested in that. If business men of the port of Boston or New York feel that a free zone or neutral zone would be of benefit to them, why shouldn't they finance it, subject to every regulation that we have here relating to financing by a local public body?

Mr. CHALMERS. Personally, Mr. Chairman, I see no objection to that. I see no objection to your modifying that provision to make it purely a private risk, if you like.

Mr. McCORMACK. For example, you recognize in the bill it is a public utility, because on page 9, section 14, it says:

Each zone shall be operated as a public utility.

That means although the public finances it, nevertheless it is a public utility so far as the operation of this bill is concerned.

Mr. CHALMERS. Yes.

Mr. McCORMACK. As a matter of fact, you can't make it otherwise under the Constitution. So, we have an organization of some kind, publicly financed by local communities, at the expense of the local taxpayers, and strictly a public utility. The responsibility for its success falls, of course, on the local taxpayer, in the main. That is, the expense will be borne by the local taxpayer. Why shouldn't we eliminate the necessity for the State or the municipality financing it, and put it squarely up to the business men? If it is going to be a good thing, they will undertake it.

Mr. CHALMERS. You will recall my stressing the fact that I thought this type of bill was preferable to that which had been introduced in past years, because of the fact that it did not involve large governmental expenditures and assumption of risk. While that aspect of it is not one on which I presume to be an expert, my visualization of such a program would be one that does not call for the use of the taxpayers' money; and the alternatives are two—

Mr. McCORMACK. Well, this bill does.

Mr. CHALMERS. Not necessarily.

Mr. McCORMACK. Why, squarely it does. It says here:

The term "public corporation" means a State, a local subdivision thereof, or a municipality, or a lawfully authorized public agency of the State or municipality.

Mr. CHALMERS. That last provision is what I have in mind.

Mr. McCORMACK. That would not permit a number of business men to associate together for the purpose of securing permission to operate and maintain and conduct a free zone.

Mr. CHALMERS. If it doesn't, it could be so modified. But as I read that second alternative, "a lawfully authorized public agency of the State or municipality," I envisage the New York Port Authorities, or similar body.



Mr. McCORMACK. But that doesn't apply to a corporation organized by law.

Mr. CHALMERS. That might be added at the will of the committee, if it so decides.

Mr. McCORMACK. If we were to confine this bill to the language here, the only port that would benefit, so far as I have any evidence presented to me, would be the port of New York. Not that I don't want the port of New York to benefit, but I want other ports to have reasonable opportunity of obtaining the benefits of this bill.

Mr. CHALMERS. As I indicated, I see no good reason why the committee can not amend the bill so as to include purely private enterprises.

Mr. McCORMACK. Why not make it purely private enterprise? If this is a success, private enterprise will put up the money.

Mr. CHALMERS. That is a matter on which those more familiar with port operations than I should express an opinion. Some of the people you had here yesterday were more competent to know whether there would be any great disadvantages in operating one area of a port separate from the generally public administration of the whole port and its shipping operations. But assuming that there were no serious objections to such a separate operation by private enterprise, such as the Bush Terminals in Brooklyn, assuming, of course, also public control, I see no objection to such an experiment, providing you don't exclude a body such as the New York Port Authorities, which is a self-supporting, nontax-drawing institution, and I believe there are organizations in other portions of the country of a similar character.

Mr. McCORMACK. I am satisfied if the bonds issued by the port authority of New York were in default that those who purchased those bonds might reasonably be justified in feeling that the authority which created the port authority and justified them and authorized them to issue bonds would be morally bound to make good. That would be my view. Fortunately they are operating under conditions where they have a fixed income, which enables them to take care of the fixed capital, and probably the amortization side of their financial enterprise.

Mr. CHALMERS. I have no fixed opinion on this aspect of the subject. I see no reason why purely private enterprise could not be given at least some opportunity. As to whether it should be limited to that, is a matter I am not competent to pronounce. Port authorities would be better able to tell you of any disadvantages there may be in limiting it to private enterprise.

Mr. McCORMACK. The ability of the Federal government to limit a quasi-public corporation, privately financed and privately managed, would be just as extensive as it would to regulate a municipal body operating in a free zone.

Mr. CHALMERS. Yes.

Mr. McCORMACK. And there would be no difficulty in that, because municipalities, under this bill, so far as the Federal Government is concerned, are treated the same as though a group of individuals formed a corporation, a quasi-public corporation, a public utility in other words.

Mr. CHALMERS. I understand that the committee has the right to modify the bill in any way it sees fit.

Mr. McCORMACK. My mind is open. As a matter of fact, my mind is more or less in favor of such a proposition, outside of these hearings. But my mind is open, and I am asking questions to obtain the benefit of your more profound knowledge.

Mr. CHALMERS. On that aspect I don't feel as competent as some others, but I see no good reason why this can not be at least extended to private enterprise, whether or not you wish to exclude public bodies from undertaking it.

Mr. CROWTHER. I would like to ask one question. You spoke of the difficulties that faced us from criticism, or from objection, due to the advantage of the establishment of these along the coast in various ports—that is, with relation to manufacturing—as against the interior cities.

Mr. CHALMERS. Yes.

Mr. CROWTHER. Do you think those fears are well grounded? Have you any experience as to whether or not they would have any material advantage over somebody located a thousand miles from a port at an interior city, for instance?

Mr. CHALMERS. I am not inclined to believe they would, but I am not prepared to express a definite opinion, because that is not before us.

Mr. CROWTHER. That would depend a little on whether the manufacturing element was contained in the bill or not.

Mr. CHALMERS. Yes. That manufacturing element is not in the bill now. I have looked upon this thing, Mr. Crowther, as a transshipment or export proposition. The other is another function. If you had a house and wanted to build a garage onto the house later, or a summer garden, or what else, that would be another story.

Mr. CROWTHER. That is not the factor that is before us. It is the way the bill is written?

Mr. CHALMERS. Right.

Mr. WATSON. A while ago you made the statement that if the raw material is imported into the free zone and manufactured there might be a greater duty on it. How could there be a greater duty on it than if they paid the duty on the raw material?

Mr. CHALMERS. Because the duty is higher on an advanced product.

Mr. WATSON. I know, but the advanced product would be in America; it wouldn't be abroad.

Mr. CHALMERS. A free zone is not customs territory, and anything leaving the free zone, going into the customs territory of the United States, is subject to duty at the time—and in the condition—of its moving into the territory of the United States. So that if you take any product, let us say cotton cloth in the gray and bleach it, or print it, or otherwise improve it, or cut it up into small pieces or hem it into handkerchiefs, and then wanted to send the resulting product into the United States, you would have an article advanced in value, subject to a greater rate of duty, and the customs rate would be greater.

Mr. WATSON. You would consider the goods were not manufactured in America, but manufactured in a foreign country.

Mr. CHALMERS. For customs purposes, a free zone would not be a part of the United States.

Mr. CROWTHER. But still the labor employed would be United States labor.



Mr. CHALMERS. Exactly; that is the principal consideration, one of the principal considerations. Have I made myself clear about the two elements in this, Mr. Crowther? Answering your point, you have your local labor, so far as any operations that are carried on, if no more than hauling and sorting and repacking, as well as the additional business of importing and reexporting, and the shipping and financing of it.

There seemed one point in Doctor Page's testimony of particular interest to the committee. He spoke of the fact that the free port of Hamburg started for unusual reasons, as one of the costs of Hamburg joining the German federation. I might point out that while, that might have been the historical origin of it, the idea has commended itself to a great many European countries, and in Europe there are free zones scattered all the way from the Baltic Sea down around to the Mediterranean.

Mr. McCORMACK. Doctor Page said conditions over there were so much different from those in America.

Mr. CHALMERS. That is a point I want to speak of, if you want to take the time now.

Mr. McCORMACK. I think that would be important.

Mr. CHALMERS. The European free port has an intrinsic inducement and justification, aside from the historical one. As to whether conditions here are different from what they are in Europe, I might call your attention to the fact that there is not a single free zone in this whole American Continent, not a single one.

In other words, no country on this continent, from Canada down to Chile has a free zone, and if they wanted to buy something from Europe or Asia, they would have to send to Europe or Asia to get it, unless it were the kind of thing that could be brought over in the original package and simply transferred in the port of an intermediary country from one ship to another, as is done. But if they wanted to buy small quantities, put up in particular forms of packages, or particular assortments or blendings derived either from Europe or Asia, they would have to send for it directly to those countries. As against the situation in Europe, where the people in the smaller countries that do not have direct shipping connections with the rest of the world can send their order simply to Hamburg or Copenhagen or Trieste, and find that there goods are brought in from all over the world, in large quantities, and available to them in small quantities, put up in the packages or conditions desired. You know a good many of our products go out in bulk and are sold in fine packages for the consumer. That is done in free zones. Our export business to Europe in prunes is largely handled in that way. They are put up in boxes or cartons in the free zones, out of barrels. This is only one type of commercial facility they have through the free zones in Europe that none of the American Republics have. There is likely to be an economic call for that sort of thing on this continent when commerce gets back to anything like normal.

Mr. McCORMACK. Of course, they haven't got the port competition over there within the various countries that we have in the United States.

Mr. CHALMERS. I don't see how that would materially affect the situation. The privilege is not available to any port now, and under the project we have just discussed, and pretty well agreed upon, it

will have to be a self-supporting venture. Any port, or any group at any port, willing to put up the money for what it thinks is a good, profitable proposition, and has a good physical set-up will probably get permission to do it.

Mr. McCORMACK. The bill doesn't permit any port to do it. Now, you are getting into a field that is interesting. This bill doesn't permit any port to do it.

Mr. CHALMERS. How is it limited? I think it says one port of entry in each State, does it not?

Mr. McCORMACK. "The Secretary of State is hereby authorized to grant to public corporations the privilege of establishing," and so forth. Then it says:

Not more than one zone shall be authorized, even though adjacent to a port of entry, except when the port of entry is located within the confines of more than one State a zone may be authorized in each State.

Of course, that was to apply to New York and New Jersey. That is in specific language and is quite proper.

Mr. CHALMERS. Yes.

Mr. McCORMACK. But still the power rests with the Secretary of Commerce, the broad power. Now, we have Portland, Boston, New York, Philadelphia, Baltimore. Then we come down to Norfolk and go along the Gulf and out to the west coast.

Mr. CHALMERS. Yes.

Mr. McCORMACK. Under this bill absolute power and discretion rests with the Secretary to determine what ports shall have the opportunity. I can very easily see where that might have a powerful effect upon the port business of other ports in the same competitive field that are not permitted to have a free port.

Mr. CHALMERS. Might I first point out that it is not absolute with the Secretary; that there is a provision for appeal to the Secretaries of Commerce, Treasury, and War.

Mr. McCORMACK. That doesn't mean a thing. That is no reflection, but it doesn't mean a thing, to my mind.

Mr. CHALMERS. Presumably the administrative heads of the departments will exercise their judgment in the national interest.

Mr. McCORMACK. Well, for example, in Boston, our port has been deterred in its progress as a result of the differential. They say that goods transported across the continent to Baltimore or Philadelphia should have a less freight charge than when going to Boston, because Boston is a longer distance. All right. But on the other hand, Boston is at least a half day nearer to Europe and they say the charges from Boston to Europe shall be the same as from Baltimore, Philadelphia, and New York to Europe. Yet the distance is shorter. There is a port differential there which these agencies created by the Federal Government have imposed. The same thing might very easily apply here. It is the old story of pressure.

Mr. CHALMERS. I don't know why we should assume that because there is authority, let us say, in the District Commissioners to grant or deny the right to put a drug store or gasoline station at any given corner that there necessarily would be a demand from every corner to have it. There might not be the business for it. The people wouldn't be willing to invest the money without seeing fair promise of return.

Mr. McCORMACK. Of course, when you get down to the District of Columbia, it is wholly different from these ports. On the other hand, this is an extraordinary power which I can easily visualize might be considered by business interests and the people of some sections of the country interested in a particular port as resulting in unconscionable discrimination.

Mr. CHALMERS. I assume that the business interests of the country as a whole have confidence in those who govern at Washington. But I might point out that there is a very close parallel to this, that involved the same fears, but which have not eventuated, namely, the authority which I believe vests in the Secretary of the Treasury to declare what particular places shall be ports of entry. That means business too.

Mr. Dow. That is provided by Executive order.

Mr. CHALMERS. The decision is made by the Treasury and the President usually approves the recommendations of the Secretary of the Treasury. There again you are making possible the importing of goods directly to Kansas City, an inland port, let us say. That is done. You might say by the same token that discrimination could be exercised against St. Louis, but in practice the administering officials of the Government, I think, have considered the broad national interest as well as the desires of the particular localities, and I should expect that a basic confidence of that sort is essential to any permissive legislation.

Mr. McCORMACK. I know, but that is a different proposition. That is a duty which primarily rests upon the Federal Government. That is with relation to a duty which it can not escape. It has got to collect its revenue, and that is strictly a national question.

Mr. CHALMERS. Might I point out they can escape it? They could limit ports of entry to ocean ports, or lake ports, as in some countries they have.

Mr. McCORMACK. I agree they have discretionary power, but they have got to perform that duty in any event.

Mr. CHALMERS. Yes; but they could conceivably throw the business to one place—

Mr. McCORMACK. This is a different proposition. If the tariff law provides for the collection of the tariff that is imposed, of necessity the Treasury Department must administer that law. The law itself forces the administration of it by the Treasury Department. Naturally, they have the discretion as to the manner in which it will be administered, and of course I can see where in the illustration you have given, one city might feel it is discriminated against. But the department has got to do that. But in this case we are undertaking a new experiment, and certainly vest an extraordinary power in the Secretary of Commerce to determine what ports shall be free ports.

Mr. CHALMERS. I am inclined to think that one can easily exaggerate the extraordinary nature of the power and the danger of its being abused. It is conceivable that the Secretary of the Treasury, even though having to collect revenues, and having to establish ports of entry, could limit them to the natural ports, those on the sea or on the lakes, and therefore force all goods to be cleared through the customs at the point where they reach the country, and in that way concentrate all that business at the ports, whereas now there are ports of entry in inland cities located on the flat plains. Your ques-

tion goes back to a point beyond which I certainly can not go, Mr. Chairman, and that is the question of confidence in the fairness of the executive heads of the Government in the administration of a thing of this kind. They have discretion in other matters, where confidence must be assumed.

Mr. McCORMACK. I am not questioning their honesty, and I am not impugning their motives, any more than I want mine impugned. On the other hand, we are dealing with a practical situation here. We have a pretty big Nation, 122,000,000 of people. We are all Americans, but we have different local ambitions and desires, and my viewpoint is that if any group of business men in any port want to establish a free port that they should have the right to do it, but that the Federal Government, the Secretary of Commerce in this case, shall have the power to determine where it shall be. He can consider the character of the business they have been doing prior to their application, and confine the activities reasonably to that character of business they had been doing theretofore, but that the right to apply for and receive permission should be left inherent in every port interested. Regulatory powers vest in the Secretary of Commerce, powers of limitation as to the extent of operation of a free port, vest in him the power of organization, to see that everybody is protected, but the right of permission I think should be so worded that there should be no question as to the obtaining of it, provided the other provisions of the law are complied with.

Mr. CHALMERS. If there were any real fear felt on that ground, I can not see, offhand, any good reason why you should not amend the bill so as to allow any port to do it under conditions to be established by the executive branches of the Government, and if they find that a small port somewhere that is mainly an annex to a vacation resort, used mostly for the tying up of yachts, wants to establish a free port, they can set conditions on it which would make it impracticable.

Mr. McCORMACK. This is not a question of transportation charges. It shapes up a little differently from the illustration you gave in the Treasury Department, or the fixing of transportation charges. I agree that under our present conditions, with the rapidity of transportation, speed, rapidity of communication, and the fact that we are no longer a strictly economically self-contained Nation requires probably some central regulation. We do not need a regulatory body so far as promising to establish the free ports are concerned, although we should have a regulatory body as to the powers and scope of their activities.

Mr. CHALMERS. Yes. As I remarked earlier, in undertaking anything of this kind where we are starting a new type of activity, I am in favor of experimenting. We have a free hand, and this discussion this morning is one of the processes in the experimentation. You may have contributed to it a worth while thought in the suggestion that any port may make application, and that the control over the conditions of such a free port or free zone at that port shall be determined at Washington, in that way avoiding any possible pressure or discrimination as between ports.

Mr. McCORMACK. We thank you.

Is there a representative of the Shipping Board present?

**STATEMENT OF T. H. MADIGAN, LEGISLATIVE COUNSEL, UNITED STATES SHIPPING BOARD**

Mr. MADIGAN. Mr. Chairman and gentlemen; as a result of the various bills introduced on this subject, in 1929 there was compiled Foreign Trade Zones or Free Ports analysis, with special reference to the advisability of their establishment in the United States. This was prepared by the Board of Engineers for Rivers and Harbors of the War Department and the Bureau of Operations of the United States Shipping Board. It summarizes the various free ports in the world at that time, with particular reference to Europe. It has pictures and maps, and the various questions, factual questions, you are asking, are answered therein.

(Several copies of the report were filed with the committee.)

Mr. MADIGAN. As a result of that study the Shipping Board in its last annual report, submitted to Congress its recommendations for legislation, and it summarizes its position in relation to this subject matter, in these words:

Proposals have frequently been made to establish free ports or foreign trade zones in ports of the United States, and several bills to that end have been introduced in Congress. In view of difference of opinion as to whether or not the establishment of these zones would benefit American shipping, it might well be considered whether their establishment in this country, if sanctioned by Congress, should not first be undertaken on a limited scale under direct authority of the Federal Government.

That occurs in the Seventeenth Annual Report for the fiscal year ending June, 1932. It has appeared in all the annual reports since No. 13, in 1929. That states the position of the Shipping Board with relation to legislation along these lines, and that book, in my judgment, will answer your questions factually.

Mr. McCORMACK. What do you mean by "direct authority of the Government"? What is meant by that language?

Mr. MADIGAN. If you conclude to pass legislation to create the zones, that they be created under the authority of the Federal Government.

Mr. McCORMACK. You don't mean financed?

Mr. MADIGAN. Financed by the Government; yes.

Mr. CROWTHER. You would develop the equipment and put up the buildings, the same as they put up customs houses?

Mr. MADIGAN. Yes; that's the idea.

Mr. WATSON. Would you favor a corporation, a private corporation, having thousands of acres, and then putting up industries there for the manufacture or manipulating of foreign commodities, and then selling them? That being considered a foreign zone?

Mr. MADIGAN. No.

Mr. WATSON. Wouldn't they attempt to do that, if you have private corporations? They wouldn't have to pay for the shipment, they wouldn't have to pay for the boxes; all they would have to do would be to carry it over the line; then it would be delivered. I fear the private corporation might come to that.

Mr. MADIGAN. Gentlemen, where the making of money is involved, if you give any one an inch, they will take a mile. As to the manufacturing of products in these free zones, the latest consensus of opinion I understand is no, with particular reference to the United States. The great problem here is the nature of the United States as

against continental Europe, where these things seem to work reasonably satisfactorily. But in this great Nation of ours, with its 48 States, and our tremendous acreage, whether this is an economical thing and should be done is a question for the Congress to determine.

Mr. CROWTHER. Then you are not in favor of private corporations, but rather Government corporations to control these free zones?

Mr. MADIGAN. The position of the Shipping Board is that if Congress concludes this is the thing to do, it should be started on a small scale under Federal authority, to see what the developments will be.

Mr. CROWTHER. To see whether there are any benefits to accrue?

Mr. MADIGAN. That is the point.

Mr. McCORMACK. Of course, if the Government financed it, they would lease part of the zone to private industry, I assume, to certain business that are interested.

Mr. MADIGAN. Just how you would work that out I am not qualified to state. I call your particular attention to pages 81 to 83 of the report. Those three pages contain the conclusions of the gentlemen who prepared this report on behalf of the War Department and the Shipping Board, and I think that is a clear and concise statement.

(The conclusions referred to are as follows:)

As a result of a study of all available information, the conclusion is reached that free ports have aided the development of commerce and merchant shipping in a large number of countries where now established. Especially has this been true of the free ports of northern Europe, located at great centers of population, politically divided where free ports have operated as entrepôts or centers for transshipment to near-by countries. As the geographical position of the United States is not analogous to that of the countries of northern Europe, this condition favorable to free ports does not exist to the same extent. There is no doubt that free ports, properly located in this country, would have some influence in developing our commerce and our ports by stimulating international trade of a character in which the country has heretofore taken rather an inconspicuous part. This refers particularly to the development of important consignment markets and trade emporia for the accumulation and redistribution of goods essentially of foreign origin. The free port or zone is merely a device calculated to permit the conduct of international trade of this character in countries having high protective tariffs with the same facility with which such trade is conducted in countries having low or limited tariff schedules. In our country the protective tariff has made possible a higher standard of living than prevails in other countries. Our concern should be to see that in providing means for promoting international trade we do not at the same time permit any operations in free zones, if established, which might injuriously affect any of the privileges and benefits which our tariff system has conferred upon labor and industry in the United States. For these reasons it is believed that until such time as careful investigations have been made, in cooperation with every industry affected, the functions of free ports if authorized in the United States should be limited to the receipt, storage, unpacking, repacking, reconditioning, sorting, grading, mixing and dividing of commodities or other manipulations which do not involve a change in the form of the commodity. After adequate investigation and specific approval in each case by Congress the permissible activities might be extended to include refining of certain products and certain classes of manufactures.

Some of the bills introduced during the last few years with reference to the establishment of free ports have contemplated that authority be granted public corporations in all cases where the specified requirements are met. There is apparently no sound reason for authorizing free ports so indiscriminately as these bills would permit.

The experience in Europe indicates that an excessive number of competing free ports in the same general trade area tends to defeat the purpose for which they are designed. On the other hand, there may be areas where it would be desirable to authorize more than one free zone within the same port of entry, which would not be permissible under the terms of some of the bills heretofore introduced. For these reasons it is felt that the best procedure with relation to the establishment of free ports, if Congress authorizes them, would be one similar



to that now followed in connection with the adoption of channel improvements at our harbors. Under this plan Congress might call for examinations to be conducted by the Bureau of Operations, United States Shipping Board, and Board of Engineers for Rivers and Harbors, War Department, of specified localities with a view to the establishment of free ports or foreign trade zones therein. Such examinations should include an exhaustive investigation of the navigation and terminal facilities; the position of the port as an outlet for exports and as a port for the receipt and distribution of imports; its advantages or disadvantages with respect to the concentration of products of foreign origin and their redistribution to other countries; its relation to the established trade routes of the United States; and its influence in attracting more cargo to American ships; the rail and highway communications; and the suitability of the location for proper coordination of rail and water routes. In brief, the investigation, which should precede the authorization or establishment of a free port, should not differ materially from the port and transportation investigations which the Corps of Engineers and the United States Shipping Board have made in connection with the functions devolving upon these establishments.

Attention is particularly invited to section 8 of the merchant marine act of June 5, 1920, which authorizes the Shipping Board, in cooperation with the War Department, to undertake certain specified functions with the object of promoting, encouraging, and developing ports and transportation facilities in connection with water commerce. The following is quoted from this act:

"That it shall be the duty of the board, in cooperation with the Secretary of War, with the object of promoting, encouraging, and developing ports and transportation facilities in connection with water commerce over which it has jurisdiction, to investigate territorial regions and zones tributary to such ports, taking into consideration the economies of transportation by rail, water, and highway, and the natural direction of the flow of commerce; to investigate the causes of the congestion of commerce at ports and the remedies applicable thereto; to investigate the subject of water terminals, including the necessary docks, warehouses, apparatus, equipment, and appliances in connection therewith, with a view to devising and suggesting the types most appropriate for different locations and for the most expeditious and economical transfer or interchange of passengers or property between carriers by water and carriers by rail; to advise with communities regarding the appropriate location and plan of construction of wharves, piers, and water terminals; to investigate the practicability and advantages of harbor, river, and port improvements in connection with foreign and coastwise trade; and to investigate any other matter that may tend to promote and encourage the use by vessels of ports adequate to care for the freight which would naturally pass through such ports; \* \* \*"

It will be seen that the above item requires the Shipping Board and War Department to conduct investigations quite similar in nature and scope to those which should precede the authorization of a free port. These Federal establishments have jointly conducted extensive investigations of port and shipping conditions, the results of which have been made available in a series of 22 volumes known as the Port Series and in the volumes of the Transportation Series and Miscellaneous Series. The free port is essentially a maritime institution. It has its economic cornerstone in the load factor, and its proper location is at the crossroads of shipping lanes. If Congress determines that free ports should be established, not only their location but the planning and facilities should be properly coordinated with our trade routes, in order that the raw products of foreign nations may be brought to our shores and the portions unsuited to or not required for our consumption may be redistributed to other countries. These operations demand the intelligent articulation of land and water transportation routes as related to the most advantageous use and distribution of the world's products. The problems involved are so closely related to the merchant marine and to the development of navigation and terminal facilities that none of them should be considered independently of its bearing upon these important subjects.

Mr. CROWTHER. Is that their attitude to-day? They haven't changed their viewpoint materially, have they?

Mr. MADIGAN. It is my understanding that the War Department has not. I know the Shipping Board hasn't.

Mr. McCORMACK. Well, we have had the Treasury Department thinking one way on this thing, the Commerce Department another,

and the Shipping Board midways. Don't you think you three gentlemen could get together and agree on something, agree on some happy medium, if one can be found?

Mr. MADIGAN. Yes. But we have gone quite a step, because we have a very complete and comprehensive analysis, as you will see when you read it.

Mr. McCORMACK. I can say for the Shipping Board's position that it is one of opposition, because there won't be a burglar's chance of having it financed by the Federal Government. But if this is subject to strict Federal regulation so far as organization and operation is concerned, what serious objection can there be to it, eliminating the manufacturing feature?

Mr. MADIGAN. In the present condition of business affairs generally, I assume it is safe to state that it is very improbable that private capital would come into it at this time. We all live in hopes that things are going to improve, and they probably will. Under those circumstances, if you make a study of the private investment side of it and conclude that is the thing to do, well and good. You gentlemen stated this is permissive legislation. My personal reaction would be that it being understood that perhaps private corporations would not take advantage of it, we should not enact the permissive legislation or any other legislation. We should be governed by the passage of time, and the best information that you can get on the subject matter. If it is not acute and should not come up now, I wouldn't bother.

Mr. McCORMACK. Of course, the permissive legislation becomes mandatory, because if one port establishes it, another will, won't it?

Mr. MADIGAN. I have heard that developed here, and I would say yes.

Mr. McCORMACK. Has the shipping board said anything about preference as to whom they should apply to for permission, the Secretary of the Treasury or some one else?

Mr. MADIGAN. No, sir.

Mr. McCORMACK. Have you any preference, or do you care to express it?

Mr. MADIGAN. I would say that we leave that to Congress. They pick out the right ones, usually.

Mr. McCORMACK. That was a question of contention in 1919, in the hearings.

Mr. MADIGAN. Yes.

Mr. McCORMACK. Whether or not the Secretary of the Treasury or the Secretary of Commerce should do the policing. Have you any opinions?

Mr. MADIGAN. No; but you know the general aspect of representatives from governmental agencies; we admit the one we are identified with is run the best, and if you are going to do it, you had better leave it with the Shipping Board, acting in cooperation with the Treasury Department.

Mr. McCORMACK. I offer for the record a letter from Hon. S. O. Bland of Virginia indorsing the proposed legislation.



(The letter referred to is as follows:)

HOUSE OF REPRESENTATIVES,  
Washington, D. C., February 16, 1933.

HON. THOMAS H. CULLEN,  
Chairman Subcommittee on Ways and Means to Investigate Free Ports,  
House of Representatives, Washington, D. C.

DEAR MR. CULLEN: I have not had an opportunity to examine the bill on which hearings are being held by your committee, but I approve of the principles of the bill.

Many years ago I introduced bills for the establishment of a free port zone in Hampton Roads vicinity. At that time I made some investigation, and I believe such free port zones would be highly desirable. I presume the matter will be taken up again at the next Congress, and I hope that I will be able to present my views in detail.

Yours very sincerely,

S. O. BLAND.

MR. McCORMACK. I also offer for the record a brief submitted by Raymond J. Dempsey, port superintendent, bureau of docks, city of Newark, N. J.

(The brief referred to is as follows:)

The port of Newark is situated on the west bank of Newark Bay. Newark Bay is a large body of water about 5 miles in length, with an average width of 1 mile, connected with New York Bay by the Kill von Kull which leads into lower New York Bay, adjacent to the Narrows. The distance from New York Bay to the port of Newark, through the Kill von Kull, is 7 nautical miles.

There is a 30-foot channel in the Kill von Kull, with an average width of 400 feet. Beginning at Bergen Point and Newark Bay, the channel is approximately 1,800 feet wide, and funnels down to an average width of 400 feet, all the way to the inshore channel that is part of the development of Newark. This inshore channel is 7,000 feet long and 700 feet wide, and is 30 feet in depth over the entire area.

In 1912, it was estimated that the city of Newark comprised nearly 15,000 acres, of which approximately 4,000 acres represented undeveloped meadow lands contiguous to the Passaic River and Newark Bay. Prior to 1912, practically all of the water-borne commerce using those waterways originated at or was consigned to points along the upper Passaic and upper Hackensack Rivers and was confined to small draft vessels drawing no more than 7 feet of water, which was then the controlling depth.

Under legislative acts passed from time to time by the State legislature since 1907, the city acquired meadow lands through both condemnation proceedings and contract purchases. Such legislation also empowered the city to proceed with the issuing of bonds for the purpose of financing the Port Newark development.

With some modifications of the recommended plans submitted by engineer advisory boards, the city of Newark, in the year 1914, initiated the development of a section of the meadows immediately south of the Pennsylvania Railroad and the Lehigh Valley Railroad bridge crossing over Newark Bay. This proposed development provided for the ultimate acquisition of approximately 2,700 acres of meadow and riparian lands extending westerly from the bay shore, a distance of some 13,000 feet to the hinterlands, and the reclamation of those lands with materials dredged from an artificial inland channel, 30 feet deep and extending inland about 10,000 feet.

In 1917, the United States Government purchased from the city of Newark 133 acres of reclaimed land at a price of \$10,000 per acre. Warehouses were constructed by the Government on this property, known as the United States Army supply base; \$12,000,000 was expended by the Federal Government, through the Quartermaster Corps of the Army. About the same time, the Shipping Board leased 118 acres of land just to the east of the Army base property, and spent \$30,000,000 in the construction of a shipyard.

Since the war the city has leased to private interests approximately 100 acres of land on the opposite side of the channel from the Army base and the Shipping Board's properties. These tenants of the city of Newark have spent over \$5,000,000 in the construction of buildings, shipping facilities, and warehouses,

so that up to 1912 somewhat in excess of \$50,000,000 has been spent by the city, Federal Government, and private interests.

As a result of the port Newark development, the United States Government through its Army engineers, spent approximately \$5,000,000 deepening the channels in Newark Bay and removing the rock at Bergen Point to a depth of 30 feet. In addition to this, the Central Railroad of New Jersey after numerous hearings in Washington, and only because of the stand Newark had taken in insisting that the future of port Newark would depend to a great extent on the removal of its old low level bridge over Newark Bay, did this railroad spend \$14,000,000 constructing a high level bridge at this location, so that a total of about \$80,000,000 has been spent directly or indirectly because of the port Newark developments.

There has been constructed at port Newark about 12,000 feet of marginal dock, 50 per cent of concrete construction and the balance of timber bulkhead type. The city owns 7,685 feet of this dock, and the United States Government owns approximately 4,000 feet. Of the footage owned by the city of Newark, there is under municipal operation approximately 6,685 feet. A thousand feet has been leased with exclusive rights to the Weyerhaeuser Timber Co., and there is about 3,000 feet, formerly included in the lease to the Submarine Boat Corporation. The parcel owned by the United States Government and under lease to the Newark Seaboard Terminal is suitable for general warehousing purposes and for the handling of general cargo from steamer to warehouse and vice versa. The municipally operated docks are especially suitable for the lumber operations, or for the loading and discharging of bulk cargo not requiring covered storage facilities.

There is about 1,100 feet of marginal dock owned by the city not being used. The city intends to construct covered storage facilities on this dock when the demand justifies the expenditure of money for this facility.

Since 1912 approximately 45 miles of railroad tracks have been installed by interests other than the rail carriers, for the purpose of serving port Newark. These tracks were constructed by the city of Newark, the Emergency Fleet Corporation and the United States War Department. More than a million dollars was spent in their construction. They are connected at the extreme westerly end of the inshore channel with the railway lines of the Pennsylvania Railroad and the Central Railroad of New Jersey. The Lehigh Valley Railroad also has access to the docks and warehouses located in the development by arrangement with the Pennsylvania Railroad.

The docks were purposely designed to permit direct transfer from ship to cars. They are of the quay or marginal type construction, providing rails for movement of cars to and from shipside.

Since 1914 the city of Newark has spent out of municipal funds in excess of \$22,000,000 building channels, constructing docks, sewage, and water facilities, streets, etc., in the port Newark district, and providing other facilities that are required in such a development.

We point out that this city is the ideal location for New York's foreign trade zone. Here, and here only, the railway, highway, waterway, and airway facilities meet. No other spot can offer these advantages. The location is served by five trunk line railroads, viz, Pennsylvania, Baltimore & Ohio, Lehigh Valley, Central Railroad of New Jersey, and the Lackawanna. Our port is right at the juncture of express highways to the north, south, and west, with routes 21, 25, and 29 giving wonderful facilities for this kind of transportation.

While it is true that air freight service up to this time has been of an insignificant nature, it also is pertinent to include the fact that the world's busiest airport and its largest is located in this zone. Already the inauguration of air freight service from Newark to the Pacific coast would seem to indicate how important this factor will be in the future.

Experts familiar with the examiners recommendation in the I. C. C. Docket No. 22824, better known as the New York Harbor Lighterage Case, are of the opinion that these findings and their subsequent benefits, will make the port of Newark the most strategic location for piers, warehouses, and industries, in New York Harbor. This location eliminates the costly lighterage service that is provided by the railroads for the movement of freight to Staten Island, Manhattan, and Brooklyn, with its consequent delays, as contrasted with the quick dispatch that could be provided between ship, rail, warehouse, and truck at the port of Newark, with a saving of from 24 hours to four or five days in time.

With the new viaduct over route No. 25 to New York, through the Holland Tunnel, the port Newark development is within 20 minutes of Manhattan, the

best time that can be made, as compared with 30 minutes to Brooklyn and a longer time to Staten Island and the Jamaica Bay development on Long Island.

Another factor that seems to be of great importance is the unlimited areas that could be provided for trade zone purposes. Immediately 1,000 acres could be set aside with all the facilities that are required in H. R. 9206, and when the business demands additional areas, another 1,500 acres could be set aside adjacent thereto.

Newark is one of the largest manufacturing centers in the country and is the center of a population of 1,000,000 people. Areas could be provided adjacent to the trade zone, where housing facilities could be set up. Port of Newark has been municipally financed, developed, and with the exception of one parcel of land that was sold to the Federal Government, it is under municipal operation and control. This makes it easier for the Federal Government to carry on joint control and simplifies the problem of jurisdiction. This contrasted where private interests must be dealt with and the consent of a number of owners obtained, makes the Newark location more desirable.

The Newark Chamber of Commerce is a strong sponsor for the plan to have the port of Newark selected as one of the trade zones.

The city of Newark has constructed an administration building at the port, which will provide ample quarters for officers and representatives of the United States Government in the same building where the municipality has its administrative offices.

At the present time there are two important rate cases pending before the Interstate Commerce Commission, marked I. C. C. 15879 and I. C. C. 25570. In New Jersey's brief in these cases, an exhibit was produced and placed before the commission, in which it was shown that the value of manufactured products for the wholesale and retail trade for the concentrated Newark area represented \$1,800,000,000, accomplished in an area of 32,187 square acres.

In conclusion, Newark desires to go on record as favoring the passage of this bill and furthermore makes application to the Secretary or properly designated authority a grant for a foreign trade zone at the port of Newark.

Mr. McCORMACK. If there are no more witnesses, the hearings will be closed.

(Whereupon, at 12.45 o'clock p. m. the committee adjourned.)

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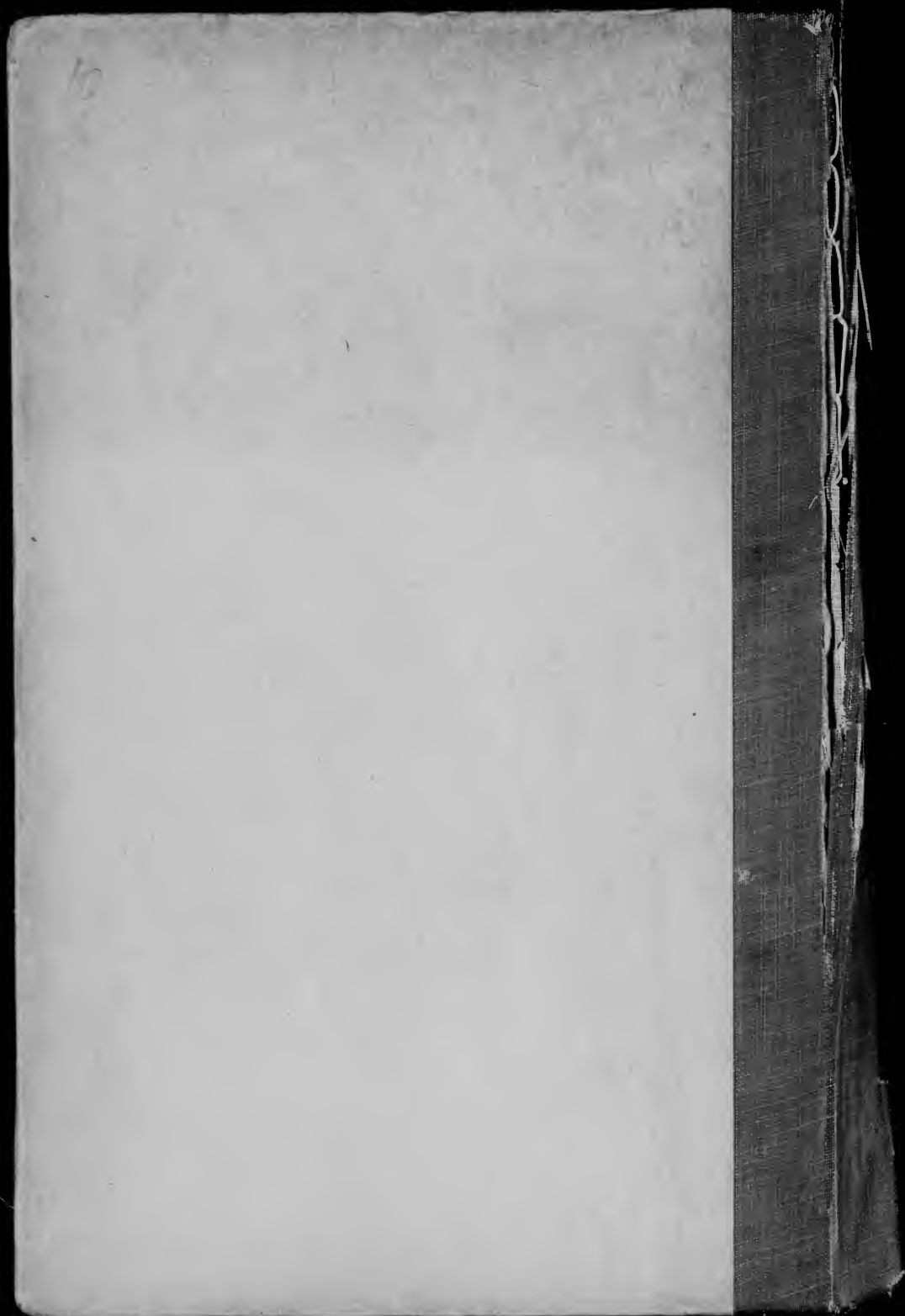
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